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Vehicle Leasing After Tax Reform

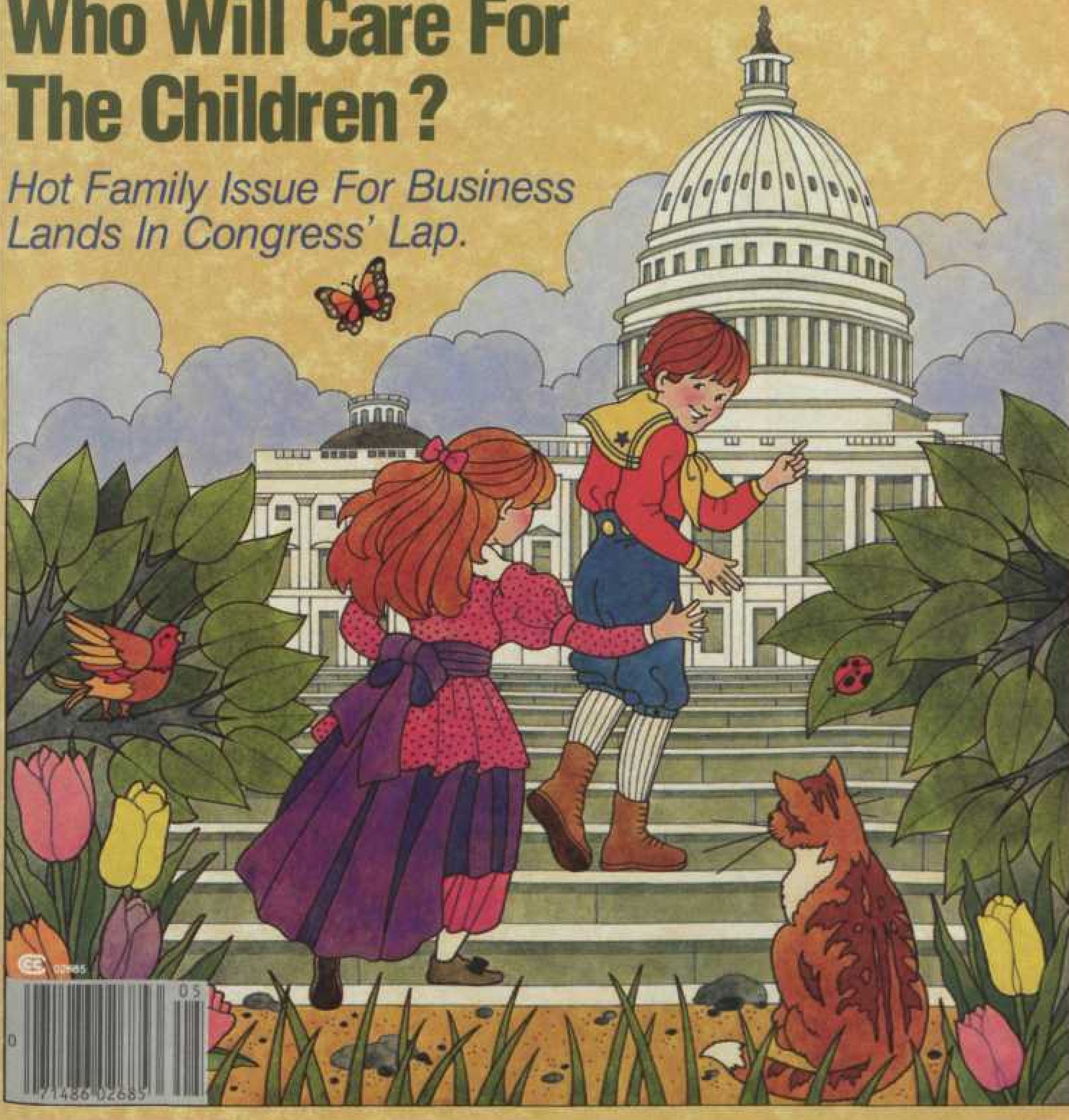
Small Firms Still Bullish on 1988

Liability Bill Makes Headway

Nation's Business

Who Will Care For The Children?

Hot Family Issue For Business Lands In Congress' Lap.



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VOL. 76, NO. 5

Nation's Business

Published by the U.S. Chamber of Commerce Washington, D.C.

MANAGING YOUR BUSINESS

PHOTO: TIM KELLY—BLACK STAR

DEPARTMENTS

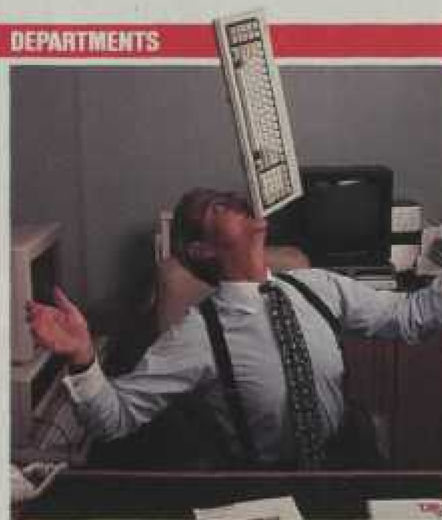

PHOTO: WAYNE SORCE

Cover Illustration: Debbie Pickney

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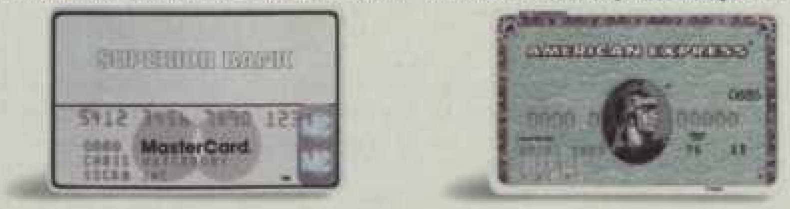

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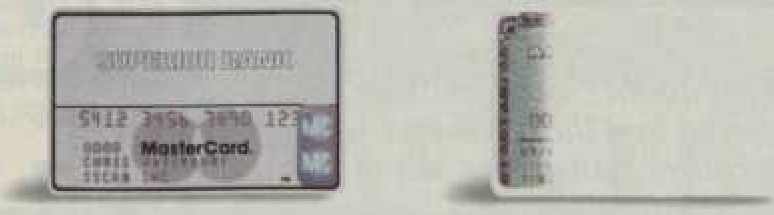

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COMMENTARY

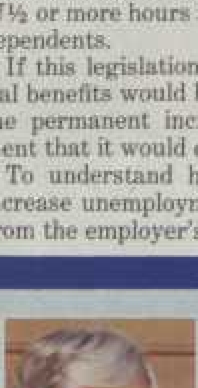
Mandating Health Care Would Eliminate Jobs

By J. Patrick Rooney

Sen. Edward M. Kennedy (D-Mass.) is pushing for passage of his "Minimum Health Benefits for All Workers Act." It would require all employers—as a condition of staying in business—to provide health insurance for all employees who work 17½ or more hours a week and for their dependents.

If this legislation is enacted, any social benefits would be overshadowed by the permanent increase in unemployment that it would cause.

To understand how this bill would increase unemployment, let's look at it from the employer's standpoint.



"America doesn't need another well-intentioned law that will end up putting more minorities out of the economic mainstream."

Kennedy claims that the minimum package of health benefits he calls for would cost an average of $1,308 per employee per year. Given the current state of health-insurance cost increases, this estimate is optimistic.

But let's use Kennedy's assumption for a simple calculation. The employer's minimum share of the cost would be 3 percent of wages for an employee making $30,000 a year. But employers must pay 100 percent of the cost of insurance for employees making less than 125 percent of the minimum wage. So, at the current minimum wage, the cost of insurance would be 17 percent of payroll for full-time minimum-wage workers and 34 percent of payroll for half-time minimum-wage workers.

The Kennedy mandate would thus force employers to ask: "Can't we eliminate some of the lower-paid workers?" This incentive to eliminate lower-paid workers threatens minority-group members especially. A disproportionate number of them hold low-wage jobs, jobs that would be the first to be eliminated by the cost of mandated health insurance.

America doesn't need another well-intentioned law that will end up putting more minorities out of the economic mainstream. The unemployment rate among youths, already excessively high, would be worsened under the Kennedy health-care mandate.

The threat of a permanent high unemployment rate becomes more real when you consider the harm the Kennedy mandate would do to small businesses. Most large corporations already provide health benefits for all employees, and they tend not to employ anyone at the minimum wage.

Most minimum-wage workers are employed by small businesses. These businesses are less likely to provide health benefits and would pay the highest cost, as a percentage of payroll, for mandated health benefits. Small firms not forced out of existence by costs of mandated health care would offset the expense by reducing their work forces and cutting work hours below 17½ hours for remaining employees where possible.

To assess the full impact of the Kennedy mandate, you must remember that he is also sponsoring a bill to raise the minimum wage to $4.65 an hour over the next three years and provide for automatic increases thereafter.

Under the combined impact of Kennedy's mandated health coverage and minimum-wage increases, employers would have to pay the full cost of health insurance for workers making less than $5.81 an hour, once the minimum reaches the $4.65 level. An increase in the minimum wage would thus provide even more incentive for smaller businesses to eliminate the jobs that provide young people entry into the work force.

It is also important to be aware of the impact that the Kennedy mandate would have on medical costs.

His bill would equip 63 percent of the currently uninsured with coverage that would pay 80 percent of medical expenses after a $250 deductible. Increased demand of that magnitude would put pressure on costs.

We saw a return last year of the rapid increase in medical-insurance premiums that occurred in the early 1980s. Average premium increases in 1987 were 20 percent, and many plans experienced increases of 35 percent and more. A 20 percent boost in premium costs would raise Kennedy's "average" cost of $1,308 per employee per year to $1,569.

The most important factor influencing the price of medical care is the ability (and willingness) of those receiving that care to pay. The Kennedy mandated-benefits plan would greatly increase the numbers of people able and willing to pay but would do nothing to counter the price escalation, which has historically followed sharp increases in demand for medical services.

Kennedy modestly estimates that the total cost of his mandate would be $25 billion a year. Robert R. Nathan Associates, a Washington, D.C., research firm, estimates it would cost $38.8 billion in just the first year.

The injection of these sums into the health-care system would produce steep cost increases like those we saw after Medicare and Medicaid were implemented. This would aggravate the Kennedy mandate's other social costs, including the denial of job opportunities to people desperately in need of them.

Mohandas Gandhi wrote: "I must refuse to insult the naked by giving them the clothes they do not need, instead of giving them the work which they sorely need."

We must not, for the sake of extending health benefits to some, establish a regressive employment tax that would coerce employers into eliminating jobs that many Americans need and want. NB

J. Patrick Rooney is chairman and chief executive officer of Golden Rule Insurance Company, in Indianapolis.

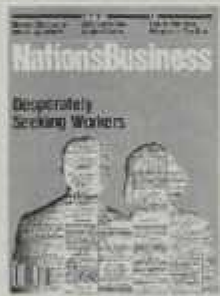
COMMENTARY

Letters

Programs That Work

I was pleased to see that you made reference to the National Urban League and our efforts to provide skills training to minorities in your February article "Desperately Seeking Workers."

One reason the League has been successful is because of its partnerships with the business community. These partnerships have enabled the League's affiliate network to create 35 Information Processing Training Centers nationally to provide the unemployed with training in word processing, computer programing and systems maintenance. Thanks to support from business, the network has placed about 4,000 persons in unsubsidized employment over the past four years.



I encourage members of the U.S. Chamber of Commerce to explore links with this and other League programs. Collaborations of this type will enable the private and human-service sectors to better help those in need.

John E. Jacob
President and Chief Operating Officer
National Urban League, Inc.
New York, N.Y.

Send letters to Editor, Nation's Business, *1615 H Street, N.W., Washington, D.C. 20062, and include your phone number. Letters addressed to the Editor will be considered for publication unless the writer requests otherwise, and they may be edited and condensed.*

You raise a problem that Citizens' Scholarship Foundation of America (CSFA) has successfully addressed.

While working with businesses to establish scholarship programs for their employees' children, CSFA was approached to develop programs to address the problem of recruitment and retention of employees. The results have been impressive.

One example is the Burger King CREW Educational Assistance Program in which employees earn $200 each quarter in addition to their salaries to be applied toward education. After instituting the program, Burger King experienced a measurable increase in employee retention.

These and other programs designed and managed by CSFA are helping businesses cope with today's changing work force.

Liz Anne Weiss
Director of Communications
CSFA
St. Peter, Minn.

Success Not Always Chain-Linked

Your March article "Home Comforts Away From Home" leaves the impression that a hotel owner cannot be successful without being affiliated with a major chain. This is clearly not the case.

My firm, Harvey Hotels, is a privately owned Dallas company that was founded in 1981 with the opening of a 313-room independent hotel. Building on our success with that first hotel, we now have over 1,800 rooms in five Dallas hotels, and a sixth hotel is being constructed.

There will always be room for quality independent operators who pay attention to their businesses.

J. Peter Kline
President
Harvey Hotels
Dallas

Integrate With Care

Your article "Bringing The Kids Into The Business" [February] makes excellent points on recruiting family into the business. However, people integrating family members into their businesses should be careful not to alienate existing management or workers. This pool of talent is too great to sacrifice for the sake of boosting family ego.

Charles B. Jones, Jr.
Atlanta

Accepting Responsibility for Risk

I was annoyed by a letter in the January issue ["Protection For Franchisees"] that suggested franchisors should be responsible for a franchisee's failure.

People looking into franchise business opportunities need to be as responsible for the risks they take with a franchisor as they would be if they started businesses on their own.

The publicity on how much more likely you are to succeed if you join a fran-

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chise can cause many unsuccessful franchise owners to blame their failures on the franchisors. The most common complaint about franchise failure centers around the location, which is agreed upon by both parties. New franchisees should not assume that the franchisor guarantees the location to be a winner when, in fact, the franchisor is only guaranteeing a business system that has worked in the past.

Franchisors do not make markets, they serve them, and like any business start-up, your success will be determined by the needs of the customers in that area.

Jeffrey D. Janke
Coral Springs, Fla.

The Potential Justifies The Risk

I noted with interest a letter in the December issue ["Alaskan Oil Exploration"] in which the writer, Randy Gann, expressed concern with the proposal for oil exploration in the Arctic National Wildlife Refuge.

He makes the point that a 19 percent probability of oil recovery in this area does not justify "unobtrusively tapping the refuge's vast energy-production potential."

A 19 percent probability of economically recoverable oil is very good. Actually, these odds are better than were those for discovering oil at Prudhoe Bay, the nation's biggest field.

If the chances of nondiscovery are 81 percent, then there ought to be a correspondingly reduced concern about potential disturbances to wildlife. If no discoveries are made, there will be no long-term effects.

Government and industry geologists agree that the Coastal Plain's potential for oil and gas is the best of any onshore prospects in the United States.

James H. Price
Vice President
Governmental Affairs Division
Metropolitan Tulsa
Chamber of Commerce
Tulsa

Physicians: Heal This Mess

Thank you for your commentary regarding the effects of liability-insurance premiums on businesses ["Liability Roulette," November].

During the past three years, my company has conducted an intensive examination of the claim-processing system used by property/casualty and workers' compensation insurance carriers. We believe the claim system to be outmoded, inefficient, unduly expensive

COMMENTARY

Letters

and largely responsible for the liability-insurance crisis.

Attempts by the insurance industry to blame the crisis on an increasingly litigious society are misleading and inaccurate.

We've found that although most claims are primarily concerned with quantifying and resolving disputed medical issues, almost none of the country's 1,700 or so casualty-insurance companies has a physician involved in assessing claims.

Instead, the industry relies on armies of claim adjusters and attorneys to make determinations on medical matters. Therefore multiple medical examinations and procedures, depositions, telephone calls and letters, and litigation must be used to ultimately solve the disputes. These measures are extremely expensive, time-consuming and often unnecessary.

One solution we propose would be for insurance carriers to use physicians, trained in medical insurance, to conduct objective reviews of complex claims at their initiations. Armed with sophisticated game plans at an early stage, claim administrators could bypass many of the extraneous procedures that now normally accompany claims.

Jeffrey S. Putter, M.D.
President
California Institute of Medical Research and Technology, Inc.
La Jolla, Calif.

OOPS!

I wish it were true, but unfortunately it isn't!

"Sell Overseas At Trade Fairs" [March] refers to the International Exhibitors Association's trade show as attracting 3,000 exhibitors. What the "Trade Show About Trade Shows" really brings in is about 225 exhibitors who display their products and services to 3,000 or more attendees.

Michael J. Bandy
Director of Communications
International Exhibitors Association
Annandale, Va.

Those of us interested in both theology and films know there is a big difference between the erudite theologian and pastoral counselor *Wayne* Oates, the real author of *Confessions of a Workaholic,* cited in the March "To Your Health" column, and actor *Warren* Oates, author of, to my knowledge, only exciting performances.

Diane Sautter Adkins
Martinsville, Va.

Nation's Business

The United States Chamber of Commerce, publisher of NATION'S BUSINESS, is a federation of businesses, trade associations, local and state chambers, and American chambers of commerce abroad.

INTERNATIONAL BUSINESS

A Big Boost For Small Exporters

By Albert G. Holzinger

Twenty-three years ago, Charles "Dick" Thomas began selling U.S. textile manufacturers sensors that shut off cotton-milling machinery and discharge fire-retardant gas within a thousandth of a second of spark detection. The device was effective.

It was so effective, in fact, that it became virtually standard equipment on machinery manufactured after 1978. Thomas' market was saturated.

"I figured I either had to come up with another product or find another market. And I didn't have another product," says Thomas, president of Argus Fire Control, Inc., of Charlotte, N.C.

Now his device is putting out fires in 15 countries worldwide, and his business is thriving.

Dick Thomas never dreamed a decade ago that he would be in the vanguard of the owners of small and mid-sized U.S. businesses who would discover a wellspring of customers in foreign markets.

He never dreamed that the President of the United States, the Secretary of Commerce and other high-ranking government officials would tout Argus' success story under a program aimed at curing the export phobia common among Thomas' business peers.

But he was, and they did.

The program that has spotlighted Thomas and other smaller exporters, called Export Now, was launched at a recent White House ceremony by President Reagan and Commerce Secretary C. William Verity, Jr.

Its twin goals are to increase awareness among entrepreneurs that they can export successfully and to publicize exporter-assistance programs of the federal government.

At current exchange rates, Reagan said in announcing the program, "many American firms can quote a lower price to their customers in Hamburg or Antwerp or Osaka than their [foreign] competitors and still make a higher profit than on sales in our own domestic market."

Verity continued: "This campaign is particularly aimed at smaller firms that have in the past dismissed the idea of exporting.

"With the dollar down some 35 percent since 1985, now is a critical time for these companies to re-examine their reasons for not exporting."

PHOTO: JOHN DAVIS—US DEPARTMENT OF COMMERCE

Van P. Smith and Commerce Secretary Verity applaud President Reagan's call for more exporting.

Verity is a former chairman of Armco Steel and was chairman of the U.S. Chamber of Commerce during 1980-81.

A team of private-sector speakers, most of them successful exporters like Thomas, has been charged by Verity with pursuing the first goal of Export Now. The "partners in exporting" team is led by Lee Morgan, chairman emeritus of Caterpillar Corporation, one of America's longtime leading exporters, and Van P. Smith, president of Ontario Corporation and another former U.S. Chamber chairman.

Team members will encourage exporting when they speak to those who attend conferences and seminars arranged by, among others, local and state chambers of commerce, trade associations, state economic-development agencies, port authorities and Commerce Department-affiliated district export councils.

Smith, whose small firm exports airplane-engine parts, typifies the missionary zeal of team members. "Historically, America's bountiful market has been able to absorb the products of small businesses and of emerging entrepreneurs," he says. "While the market in our own nation has matured now [providing fewer sales opportunities], I firmly believe great opportunities exist today in the developing markets of the developing world for American products, capital and know-how."

If you've ever beheld the Commerce

Call For Help

Commerce Department headquarters in Washington is a treasure trove of export information and advice—if you know how to find the help you need. Here are a few of the most frequently requested telephone numbers at Commerce. The area code for each is 202.

U.S. And Foreign Commercial Service
- Domestic Operations, 377-4767
- Foreign Operations, 377-8300
- Export Promotion Services, 377-4918
- Regional Coordinators:
  - Africa, Near East, South Asia, 377-2736
  - East Asia, Pacific, 377-2736
  - Europe, 377-1599
  - Western Hemisphere, 377-1599

Trade Development
- Product Specialists:
  - Aerospace, 377-8228
  - Automotive, Consumer Goods, 377-0823
  - Basic Industries, 377-0614
  - Capital Goods, Construction, 377-5023
  - Science, Electronics, 377-3548
  - Services, 377-5261
  - Textiles, Apparel, 377-3737
- Export Trading Companies, 377-5131
- Foreign Major Projects, 377-5225
- Trade Information, 377-1316

Export Administration
- Electronic Licensing, 377-8540
- License Status, 377-2753

"Partners in exporting" from business and government are showing smaller firms why it's time to Export Now.

Department headquarters building in Washington, you have sensed the importance of the second element of Export Now: matching would-be exporters with resources of the federal trade bureaucracy.

The Commerce Department is made up of a collection of agencies referred to through inscrutable acronyms and abbreviations such as ITA (International Trade Administration), BEA (Bureau of Export Administration) and US&FCS (U.S. and Foreign Commercial Service).

Other government departments and agencies offering trade assistance, including the Small Business Administration, the Overseas Private Investment Corporation and the Export-Import Bank, have similarly daunting facades.

Verity's charge to his fellow trade officials is simple: Help business people find you.

They will carry out the charge in a variety of ways, including distributing promotional and informational materials at the same events at which members of the partners-in-exporting team appear.

Among the materials are:

- The names, addresses and phone numbers of the chairmen of 48 district export councils. There is an export council in each city where Commerce has a district office.
- A similar list of the chairmen of Commerce's 17 industry-sector advisory committees.
- The names and phone numbers of the almost 200 desk officers based in Commerce, each officer an expert on conducting business in one foreign country.
- A one-page list of federal government departments and agencies with trade functions. The list includes a hotline telephone number for each office.

If you would like to be one of the Export Now program's walking success stories, write to the program at 1331 Pennsylvania Avenue, N.W., Suite 1500—North Lobby, Washington, D.C. 20004-1703.

If you want to obtain the material outlined above or receive information about upcoming Export Now events, call (202) 637-3077 or the Commerce Department district office listed in your telephone directory. NB

Small-Business Update

By Joan C. Szabo

SBA Would Alter Programs

The head of the Small Business Administration says fiscal year 1989 budget proposals for his agency would "eliminate excessive subsidies and ensure that all program beneficiaries pay a fair price for SBA services."

SBA Administrator James Abdnor recently appeared before the House Small Business Subcommittee on SBA and the General Economy to comment on the agency's spending proposals submitted to Congress in President Reagan's budget request for the fiscal year beginning next October 1.

The President recommended that SBA loan guarantees be reduced from $3.2 billion in 1988 to $3 billion next year. Federal repayment guarantees would apply to 75 percent of loans over $75,000 instead of the present 90 percent.

The request would direct the sale to private investors of all existing SBA loans that the agency is now servicing. The administration also wants to eliminate SBA direct loans to the handicapped, minorities, Vietnam veterans and disabled veterans. These are loans of last resort and are made only if the applicant cannot secure funds from any other source.

In addition, the proposal calls for cutting back and eventually eliminating the management assistance provided through Small Business Development Centers. It also would eliminate the minority assistance now provided through consulting contracts under Section 7(j), business-development-expense funds, and the special incentives to minority-enterprise small-business investment companies (MESBICs) to encourage them to provide venture capital to minority small businesses.

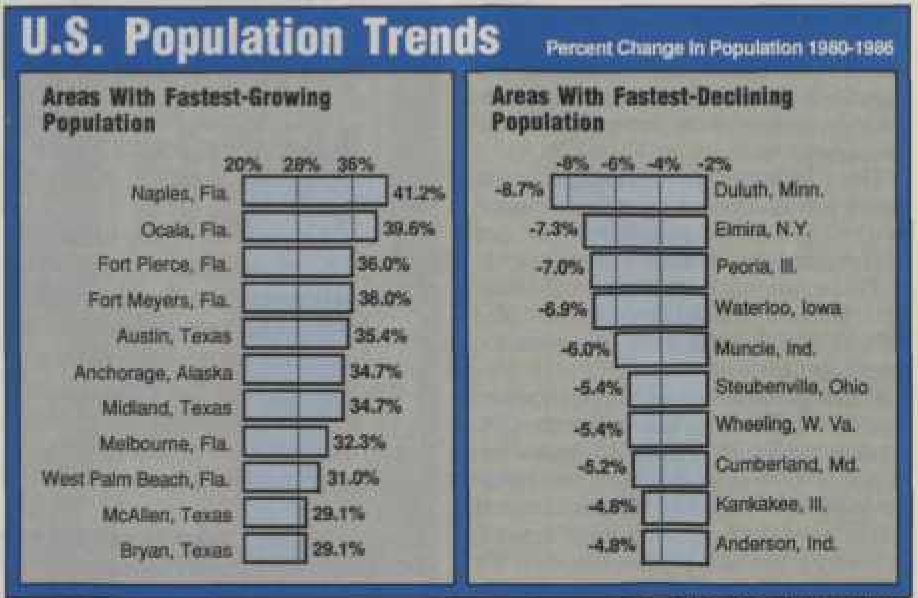
New or expanded user fees are expected to bring in $23 million yearly.

In the House, Rep. John J. LaFalce, chairman of the Small Business Committee, has introduced an SBA budget-reauthorization bill that ignores the administration's suggested changes. The House bill provides the same program levels for fiscal 1989 as authorized now for fiscal 1988. It also calls on the SBA to establish a program of "mini-loans" up to $100,000 under the guaranteed loan program.

The Senate Small Business Committee also has a review of the administration's fiscal 1989 SBA budget request under way.

"The U.S. Chamber of Commerce supports the administration's efforts to abolish SBA's direct-loan program," says Don Berno, director of the Chamber's Small Business Center. But he says the Chamber would like to see the administration "take constructive steps toward privatization by supporting legislation to establish a federally chartered but privately owned Corporation for Small Business Investment (COSBI)." The Reagan administration is opposed to COSBI legislation.

COSBI would serve as a capital bank to provide funds that small-business investment companies (SBICs) and minority-enterprise small-business investment companies would funnel to small businesses through stock purchases or direct loans.



Source: Population Reference Bureau

Improving The Prompt Payment Act

Legislation to strengthen the Prompt Payment Act is gaining momentum in Congress. The bill passed the Senate in October and is under consideration by the House Government Operations Committee, which is expected to approve it.

The original act, passed in 1982, requires Uncle Sam to pay contractors by the due date specified in the contract or within 30 days in the absence of a due date. If the payment is not made by the due date, the act entitles the contractor to receive an interest penalty for late payment. In emergency situations, the government could have a 15-day grace period to pay.

Despite the law, federal payments are being made late. A recent report from the General Accounting Office indicates that one fourth of the government's bills are not paid on time, the grace period has become routine, and late payments don't include interest.

These problems have been particularly burdensome for small firms that do not have large capital bases and that depend heavily on cash flows.

Under the pending legislation, agencies would have no more than five days to officially "receive" and "accept" what they buy. The 15-day extended-pay privilege, which agencies have used to stretch the payment-due date to 45 days from 30, would be phased out by Oct. 1, 1990. In addition, the 30-day payment clock would start ticking when the company's bill first arrives, not af-

A potpourri of briefs that span the concerns of small business, from making Uncle Sam pay you more promptly, to strengthening your safeguards against IRS abuses, to finding out what SARA may want you to do this year.

ter the bill has been shuffled through layers of government bureaucracy.

The measure also would force agencies that deliberately skip paying interest penalties on overdue accounts to pay twice the penalty if the company complains.

Testifying before the House Government Operations Subcommittee on Legislation and National Security, Raymond S. "Tim" Wittig, a member of the U.S. Chamber of Commerce's Small Business Council, said the legislation "would help to ensure that government contractors are paid on time and would guarantee that interest penalties are paid automatically in instances of late payment."

The legislative effort to amend the law was one of the 60 recommendations to Congress made by the 1986 White House Conference on Small Business.

Kenton Pattie, director of the Coalition for Prompt Pay, says, "The outlook for the House bill, which has 173 cosponsors, is very positive."

More Rights For Taxpayers

Legislation to provide taxpayers with increased safeguards against Internal Revenue Service abuses is making headway in Congress. The Senate Finance Committee recently approved the Taxpayers' Bill of Rights measure, and the outlook for final passage is good.

Says Sen. David H. Pryor (D-Ark.), who drafted the legislation: "We're going to get this bill to the President's desk quicker than anyone imagined."

Under the measure, the IRS would be required to notify taxpayers in writing of their rights before questioning or auditing them. It also would make it more difficult for the IRS to put liens on or seize taxpayer property and bank accounts. In addition, taxpayers would be able to recover professional fees and other costs incurred in defending themselves from unjustified IRS proceedings.

Reductions of tax revenues attributable to various provisions of the measure would come to about $200 million in fiscal 1989 and about $100 million annually thereafter, according to an estimate by Congress' Joint Committee on Taxation.

To pay for the taxpayer-rights bill, the panel agreed to three revenue-raising provisions.

One would withhold tax refunds from those who aren't paying their student loans and other government loans. Another would double the excise tax on automobiles whose fuel economy is below 22.5 miles per gallon. The third would tighten the "wine flavors credit" to insure that the credit is taken only when flavors are added to distilled spirits.

Supporters of the taxpayer-rights bill are optimistic about the outlook for passage in the House, where the measure has 182 cosponsors.

SARA Requirements

Do you know what SARA requires you to do? SARA is the Superfund Amendments and Reauthorization Act of 1986. This federal law requires manufacturers of hazardous chemicals to submit yearly reports on the amounts of chemicals their facilities release into the environment, either routinely or as a result of accidents. Nonmanufacturers who handle hazardous chemicals also must comply.

The aim of the reporting is to inform government officials and the public about releases of toxic chemicals into the environment. The reports must be sent to the U.S. Environmental Protection Agency and to designated state agencies.

The first annual report for 1987 is due by July 1. Those who fail to report are subject to civil penalties of up to $25,000 a day.

EPA has prepared a brochure, "Title III Section 313 Release Reporting Requirements," to alert businesses to the specifics of the law, and to help firms prepare to meet reporting obligations.

To obtain a copy of the free pamphlet, write EPA, Emergency Planning and Community Right to Know, WH-562a 401 M Street, S.W., Washington, D.C. 20460.

Small-Business Week

President Reagan has designated May 8-14 as National Small Business Week to honor the nation's 17 million small-business people.

This year's theme is "Small Business: Working For America." Says James Abdnor, head of the U.S. Small Business Administration: "The theme is appropriate because small businesses are responsible for two of every three new jobs, most job training, 40 percent of national production, half of private em-

This Month's NB TIPS

The 1988 edition of *Try Us*, the National Minority Business Directory, lists names, addresses and phone numbers of more than 5,200 minority-owned firms nationwide.

A single copy including postage is $35 from National Minority Business Directories, 65 22nd Avenue, N.E., Minneapolis, Minn. 55418.

Tap into "The Fine Art of Estate Planning" during the May 18th Video Teleconference organized by the American Society of Chartered Life Underwriters and Chartered Financial Consultants. The latest concepts and techniques used by the foremost advanced estate-planning professionals will be presented.

To register, call (800) 392-6900; in Pennsylvania, call (215) 526-2500.

"How To Select A Sales Force That Sells" provides practical advice on strengthening a company's sales effort. The revised second edition lists 11 key elements of a great sales force, including knowing when to change a sales approach in order to make the most of opportunities.

The 28-page booklet also includes information on spotting factors that hinder sales and avoiding the 10 most common incentive mistakes.

For a free copy, write the HR Chally Group, 2600 Far Hills Avenue, Dayton, Ohio 45419-1696.

ployment and most new products and technologies."

During the ceremonies in Washington, outstanding small-business owners from each state, Washington and Puerto Rico are honored, and the national small-business person of the year is announced.

Financial Time Bomb

Small as well as large companies could encounter greater costs in the forthcoming years of the "graying of America" if there are no imaginative solutions for the problems of long-term, unfunded retiree health-insurance programs, warns the National Chamber Foundation, a public-policy research affiliate of the U.S. Chamber.

Over the next 40 or so years, the number of Americans over the age of 65 is expected to double. Health-care needs, especially among the very old, are expected to increase. As the federal government seeks to curb Medicare costs, it will call on private insurance carriers and, in turn, employers to shoulder more of the costs of the medical care for the elderly, experts say.

Because more detailed information on the problem is needed, the Foundation's Council on Trends and Perspectives recently agreed to launch a research effort on the impact of an aging America on the cost and quality of health care and other public services.

The study will attempt to identify private-sector solutions that will help preserve benefits for older Americans while avoiding costly new programs.

Stashing The Plastic

Consumers may be ready to slow their record-breaking borrowing pace, according to a survey conducted by Synergistics Research Corporation, an Atlanta-based firm that conducts research studies in the financial-services area.

The survey found that while consumers remain optimistic about their personal financial future, their demand for credit may decline in 1988.

More than half of the consumers polled said they expect to owe less money at the beginning of 1989 than they owed at the beginning of this year. About one third indicate that they will owe about the same amount of money as they do now. Only 14 percent say they will owe more.

The eventual elimination of the tax deduction on a significant portion of consumer interest payments appears to be affecting borrowing attitudes, the survey found.

The study found that those who itemize interest deductions on their tax returns are almost twice as likely as those who don't itemize to say they will curtail debt in 1988. Regardless of this expected decline, the survey says, "Consumer intent to reduce debt is likely to be reflected in the near term in slowed growth or no growth."

Quoteworthy

"Entitlement programs offer substantial opportunities for long-term budgetary savings, since they currently account for nearly half of total outlays. And with the base of expenditures certain to expand in conjunction with the increase in the beneficiary population during the next few decades, the deficit-reduction benefits of changes in the law today will accumulate over time, leading to much larger savings in the year 1995 and beyond than in, say, 1990 or 1991."
—Federal Reserve Board Chairman Alan Greenspan, testifying to the Senate Budget Committee.

"On the surface at least, there are striking similarities between [financial market] events of October 1929 and October 1987. . . . Given the way 1929 played out, these observations are not comforting. Nevertheless, the similarities should not be exaggerated. The economy today is quite different—institutionally, structurally, cyclically—from that of 1929. A contraction in economic activity was under way prior to the market debacle of October 1929. In contrast, the cyclical expansion in business that followed the recession of 1981-82 remains intact today."
—Annual Report, Federal Reserve Bank of Minneapolis.

"I believe in making strategic acquisitions when they lead to better products, lower production and distribution costs and increased sales. But . . . I'm against the takeover artists who buy companies, sell off the pieces, pocket the cash and then walk away."
—Karl D. Bays, chairman and chief executive officer of IC Industries, addressing the Financial Executives Institute, in Chicago.

Misclassifying Workers

The Internal Revenue Service is stepping up enforcement of regulations governing distinctions between employees and "independent contractors."

Companies that engage independent contractors do not have to pay Social Security or provide them with other benefits and are not required to withhold income taxes.

The IRS has assigned 400 revenue officers to look into situations where it believes individuals working for companies on an independent-contractor basis are in fact regular employees.

More than 9,000 delinquent employment tax returns have been filed, and assessments have been issued to 92 percent of the employers examined, says William M. Wauben, IRS Assistant Commissioner for Collection.

The IRS will begin assigning collection officers to the small-business workshops conducted by the taxpayer-service division to familiarize new business owners with their responsibilities as employers and with the collection process in general.

For more details on the classification of workers, request IRS Publication 539, "Employment Taxes," by calling (800) 424-FORM.

Exports Show Strength

The U.S. export picture continues to brighten. "The improvement in exports is not only strong, it is broad-based," says Graciela Testa-Ortiz of the Economic Policy Division of the U.S. Chamber of Commerce.

Compared with their levels at the end of 1986, exports of goods and services adjusted for inflation surged by 16.8 percent by the end of 1987.

Merchandise exports increased an impressive 18.3 percent, while exports of services increased 13.7 percent.

The growth of imports is slower than the growth of exports, says Testa-Ortiz. This is helping to narrow the U.S. trade deficit. Compared with their levels at the end of 1986, imports of goods and services increased by only 9.1 percent by the end of 1987.

Testa-Ortiz expects real net exports of goods and services to register a $100.1 billion deficit for 1988, compared with a deficit of $135.5 billion in 1987. Real net exports is a calculation of the inflation-adjusted value of exported goods and services minus the value of imports in the same categories.

Even though it is widely believed that a healthy pickup in exports alone could not support a declining economy, the recent strength in exports "is sufficient to see the economy through a period of sluggish growth," says Testa-Ortiz. NB

COVER STORY

Caring For The Children

By Roger Thompson

Sixteen years have passed since Congress last approved legislation to establish a national child-care program. Under that plan, child care would have been free for the poor and subsidized for middle-income families. But the bill never made it off President Nixon's desk.

In a stinging veto message to Congress, Nixon said the $2.1 billion-a-year plan demonstrated "fiscal irresponsibility, administrative unworkability and family weakening implications." Although the Senate had passed the legislation by almost a 4-to-1 margin, it fell far short of overriding the veto.

Child-care legislation is once again before Congress, and no doubt critics will echo Nixon's concerns about the federal government's proper role. Time, however, appears to have wrought change in political attitudes toward a government role in child care.

Since 1972, married women with children under the age of 3 have been the fastest-growing segment of the labor force, causing a dramatic increase in the demand for child care. Today, more than 8 million children under the age of 5 have mothers who work. Surveys show that most parents have great difficulty arranging for quality child care. And one survey indicated that dissatisfaction with the arrangements that are made is the most reliable predictor of employee absenteeism and unproductive work time.

Growing awareness that child care is linked to the nation's economic health has helped give the issue a new sense of urgency. Within a matter of months, child care has become the hottest family topic before Congress.

"We already know that child care is showing up on the bottom line of some companies," increasing productivity and decreasing absenteeism, Labor Secretary Ann McLaughlin told participants at a major child-care conference in New York in March.

With the child-care issue recast in such terms, it is not surprising that for the first time in 16 years a major child-care bill may win congressional approval. While the push is being led by liberal Democrats, many conservative Republicans have thrown their weight behind child-care legislation. Two thirds of the Senate's members are sponsoring some sort of child-care measure. This bipartisan support only reflects political reality. Recent opinion polls indicate that there is broad public support for an expanded federal role in child care.

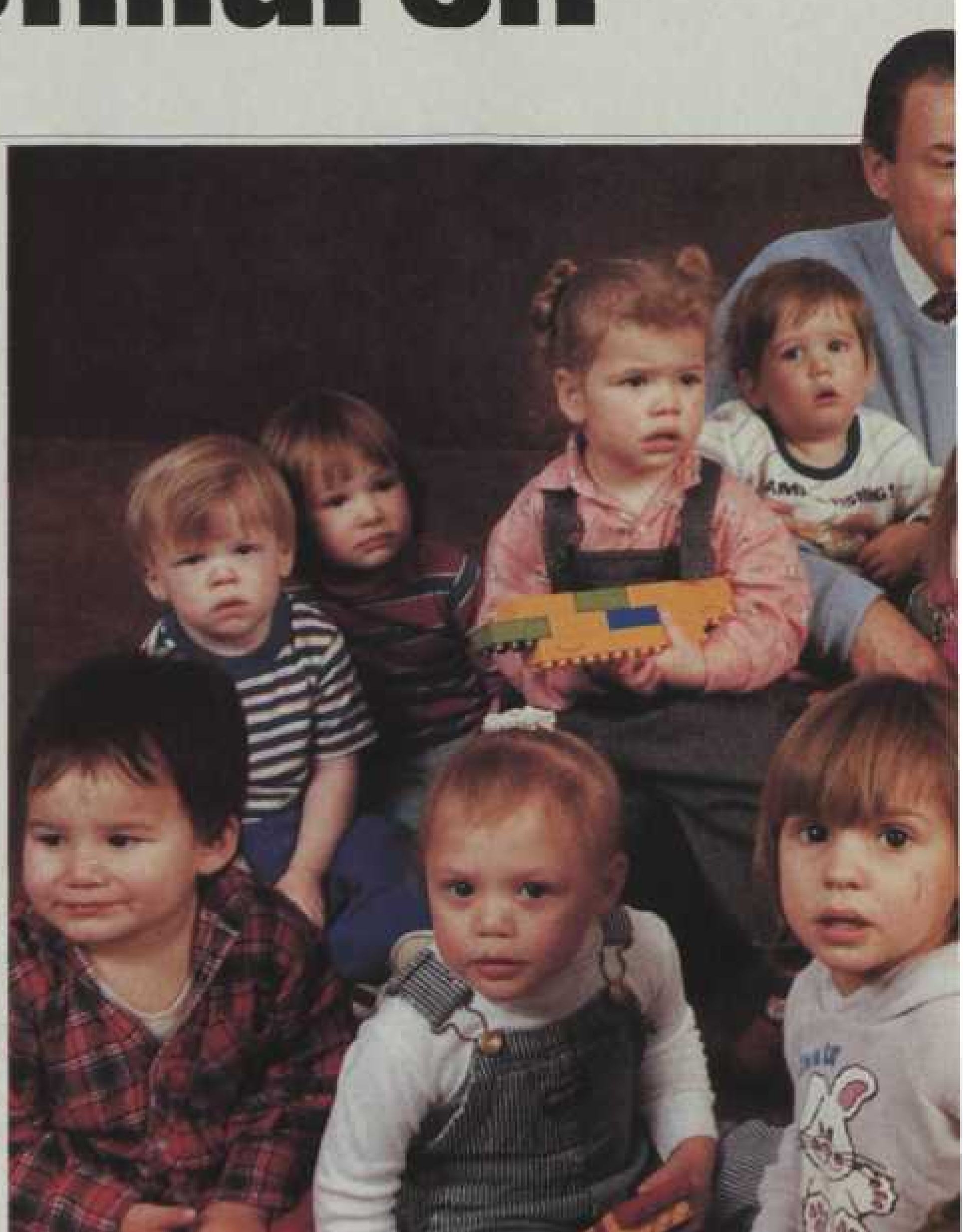


PHOTO: TIM KELLY—BLACK STAR

Thus, the debate on Capitol Hill is no longer *whether* the federal government has a role in child care, but *how extensive* that role should be. Bipartisan support for the issue does not mean Congress has reached a consensus, however. In fact, two vastly different bills have emerged as leading contenders for congressional action.

First in the legislative hopper was a $2.5 billion-a-year bill introduced last

Growing awareness of its link to the nation's economic health has made child care the hottest family topic on Capitol Hill, and Congress for the first time in 16 years may pass a major child-care bill.

Sen. Orrin Hatch, author of a pending child-care bill, takes charge—if only briefly—of the kids at the Learning Tree Day Care Center back home in Salt Lake City.

summer by Sen. Christopher Dodd (D-Conn.). His bill, called the Act for Better Child Care Services, or ABC, would subsidize day care for low- and moderate-income families, establish minimum federal standards for child-care providers and earmark funds to improve the training of child-care workers. It has 37 Senate sponsors (a companion bill in the House has 160), plus support from dozens of child-care advocacy groups.

Far less expensive and intrusive is a bill introduced last September by conservative Sen. Orrin Hatch (R-Utah). His bill, the Child Care Services Improvement Act, would spend $375 million in its first year—$250 million in block grants to public, private and family day-care centers; $100 million to establish an insurance pool to help lower the cost of liability coverage for child-care providers; and $25 million for a revolving loan fund to improve child-care facilities. The bill also offers a one-time tax credit to businesses that establish day-care centers. It leaves standards in the hands of states and local governments.

Sponsors of both bills are optimistic about congressional action, if not this year, certainly in 1989, Suzanne Martinez, an aide to Sen. Alan Cranston (D-Calif.), told the New York child-care conference. It was sponsored by the Child Care Action Campaign, a coalition of business executives, government officials and academics.

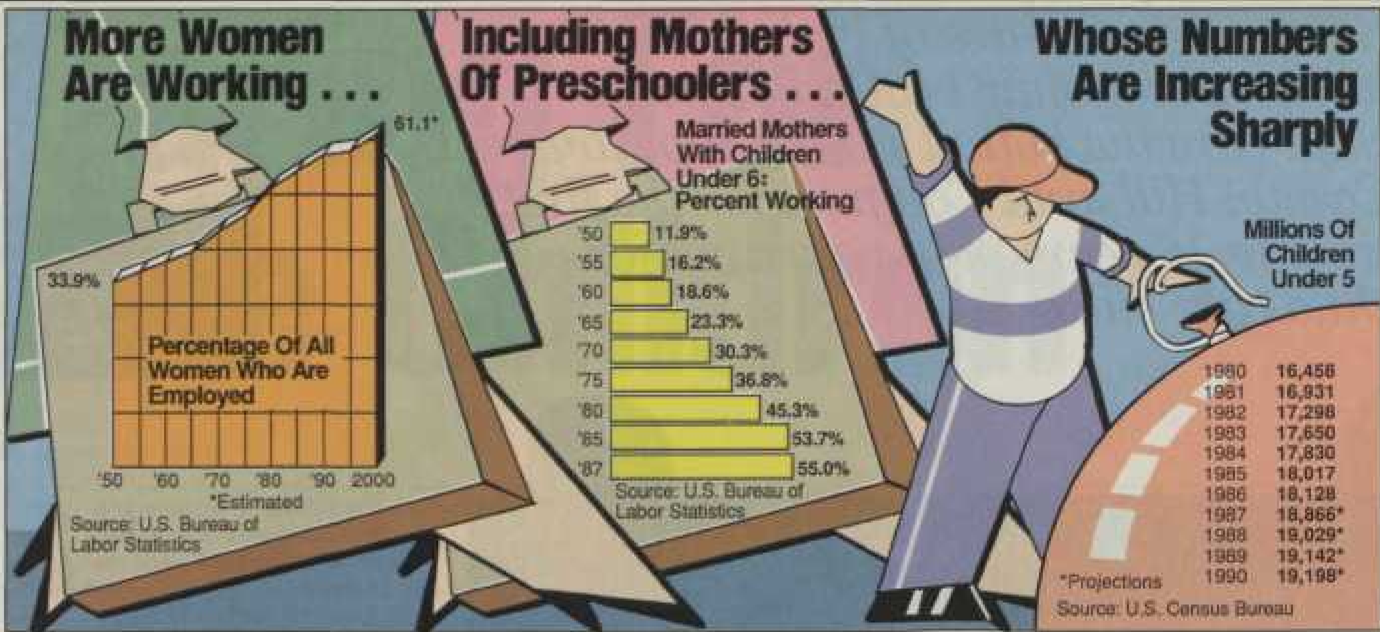
"There is a growing consensus on Capitol Hill that child care is a national problem that merits federal action," said Martinez, an authority on child-care legislation. She noted, however, that Congress has a short calendar this election year and may run out of time to deal with the issue.

Hatch, however, is optimistic that a compromise child-care bill, largely reflecting his priorities, will land on the President's desk this year. He maintains that without his seal of approval, President Reagan would veto any child-care bill Congress passes.

The primary goal of his bill, Hatch explains, is to give the private sector incentives to address the child-care problems faced by working parents. "My legislation proposes breaking down some of the liability and tax obstacles that have discouraged many potential child-care providers from moving into this field. These reforms would help increase the overall availability of child care as well as help to lower costs." He contends that Dodd's bill, in contrast, would spend "a horrendous amount of money" on existing child-care facilities without adding to the supply.

Hatch, who opposed the establish-

COVER STORY



ment of a Senate day-care center in 1984, says he gradually has come to understand that child care is not a liberal or conservative issue, but a family issue that deserves a federal helping hand. "While I personally believe that children benefit much more from having a full-time parent, I realize it is wishful thinking to expect a return to 'Ozzie and Harriet' style families."

So far, fewer than a dozen senators have cosponsored Hatch's bill. But he has landed the qualified support of several influential business groups, including the U.S. Chamber of Commerce.

The Chamber's board of directors in February unanimously adopted a resolution that essentially embraces the thrust of Hatch's bill.

The resolution read, in part: "[T]he federal government should resist the temptation to mandate specific employee benefits, to regulate previously unregulated industries, to subsidize or compete unfairly with private-sector day-care centers, or to impose a costly and monolithic federal child-care program."

The board decided to act, says Virginia L. Thomas, a Chamber labor-relations attorney, because child care "is a legitimate emerging need in the workplace. The business community has to be involved, and there is no doubt that Hatch's bill better accommodates the needs of business than the ABC bill."

Businesses already are showing a growing interest in providing child-care services to their employees. A 1987 survey by the Bureau of Labor Statistics estimated that 25,000, or 2 percent, of businesses and government agencies with 10 or more workers sponsor day-care centers, and an additional 35,000, or 3 percent, provide financial assistance for day-care services. An additional 6 percent of employers offered other types of help to workers seeking child-care arrangements: either information and referral services, or counseling services.

Employers who become involved with child-care services are rewarded on the bottom line, according to a forthcoming Small Business Administration study.

The study found that employers who offer some kind of child-care assistance have noted increased worker productivity; more successful recruitment; reduced turnover, absenteeism and lateness; enhanced morale; and positive publicity.

While the Chamber applauds Hatch's bill for offering the private sector in-

Recognizing Quality Child Care

Employers who invest in child care want to be sure they are supporting a quality product. But because the regulations and standards governing child-care operators—from family-care providers to commercial centers—vary from state to state, it's difficult to pin down the criteria for high quality.

South Carolina, for example, licenses centers that have at least one adult for every eight babies, while Maryland insists on a ratio of one care-giver for every three infants and Arizona sets a standard of one to five.

To assist employers and parents in their search for quality child care, the National Association for the Education of Young Children is seeking to accredit programs that meet a long list of criteria. So far, the group has accredited 400 programs out of 60,000 nationwide. The most important factor in determining quality, says the professional association, is the staff-to-children ratio. The organization says there should be at least one adult:

- For every four infants.
- For every five children 12 to 24 months old.
- For every six children 2 to 3 years old.
- For every nine preschoolers.

In evaluating child-care centers, you also should look closely at staff-child interactions, staff qualifications and the type of physical environment that supports the program; for each child there should be at least 25 square feet of indoor space and 75 square feet of outside play space.

NAEYC suggests that if you are considering supporting or referring employees to a particular center, you should spend a day there, keeping in mind such questions as: Do the staff members and children seem to enjoy and respect one another? Are there planned activities that promote child development? Are rigorous sanitary procedures strictly enforced? Is the center physically secure?

For free information on employer-assisted child-care options, including a booklet on how to recognize quality programs, contact: NAEYC, 1834 Connecticut Ave., N.W., Washington, D.C. 20009; (202) 232-8777, or (202) 424-2460.

—Karen Berney

Public-Private Initiatives

While probably no state would turn down money from the federal government to expand and upgrade child-care services, states are not keen on seeing those funds tied to federal decrees, Vermont's Gov. Madeleine Kunin told participants at a major child-care conference in New York recently. The states and their private sectors "think a lot can happen without mandates," she said, and "they want the flexibility to do it themselves."

Indeed, cooperative efforts between corporations and state and local governments have been targeting child care for some time. "The depth of cooperation is truly unique," says John E. Kyle, a consultant to the National League of Cities. Increasingly, businesses are recognizing that "a good start makes for better employees in the long run," he says, and they understand that child-care needs cannot be satisfied by government alone.

There are few public-private partnerships for child care, and most are at the city level. But as the success of these partnerships in states such as California is broadcast, other state and local agencies will craft similar models, many believe. Here's what three public-private partnerships are doing:

- California has the most far-reaching partnership in the country. The California Child Care Resource and Referral Network has trained more than 1,200 new family-care providers in 70 communities to create more than 6,000 new spaces for children.

The $3 million for the project, now in its third year, was raised under the auspices of the Bank of America Foundation, which stimulated tax-exempt contributions from private foundations and more than 33 companies.

A major reason for the project's success, says Director Merle Lawrence, "is that the companies do not feel they are throwing money down a bureaucratic black hole."

- In Texas, the new Child Care Partnership of Dallas, a nonprofit organization, uses state, local and private funds to help Dallas centers reach the quality standards set by the National Association for the Education of Young Children. (See Page 20.) So far, $350,000 has been contributed by local firms.

- North Carolina's Child Care Resources of Charlotte draws on a fund supported by the county, with matching funds from the business community. The money is used to pay for child care for welfare parents willing and able to work. Resulting savings on welfare are returned to the fund to avoid additional public expenditures.

States also work with businesses to promote child care by providing tax relief.

For example, Florida lets employers deduct 100 percent of the start-up costs of an on-site child-care center. Connecticut permits a 50 percent tax credit for firms that offer employees child-care subsidies, and it grants a corporate investment or renovation credit of up to 40 percent for contributions to nonprofit centers and up to 30 percent for donations to profit-making ones.

In addition, just over half the states provide income-tax credits or deductions for families' child-care expenses. These credits are related to the federal child-care credit, which allows for a 20 to 30 percent deduction based on a family's income. The states' credits range from 10 percent of the federal credit in Arkansas to 45 percent in Iowa.

Perhaps the most creative initiatives are occurring in cities. Sacramento, Calif., for example, uses zoning and planning rather than ordinances to expand the supply of child care. Developers who include a child-care center in a commercial complex receive priority consideration as well as one-stop shopping for building permits and licenses. Residential developers who include bikeways and playgrounds in their plans receive similar treatment.

Another zoning incentive gaining popularity involves extending floor-area bonuses for building child-care space. In Hartford, a developer obtains six additional square feet of floor area for each square foot of child-care space provided. Added bonuses are available if the indoor area is combined with outside play areas such as playgrounds.

Child-care advocates are good sources of information on private-public partnerships and on state and county programs that help employers and employees find and pay for child care. For a state-by-state listing of advocates, send for a copy of the *State Child Care Fact Book, 1987*, available for $7.45 from the Children's Defense Fund, 122 C Street, N.W., Washington, D.C. 20001.

—*Karen Berney*

centives to expand child-care services, it stops short of a blanket endorsement. Particularly troubling to the Chamber is the requirement that any business offering a so-called cafeteria benefits plan must add child care to the plan. "That's considered a mandated benefit," and the Chamber opposes any such federal mandates, says Thomas.

Dodd's bill, however, poses far more problems for the business community. Among them are federal regulation of day-care providers, a multibillion-dollar expenditure at a time when Congress is trying to reduce massive budget deficits, and failure to aid businesses with child-care liability insurance. The National Governors' Conference also has criticized the Dodd bill for advocating federal child-care standards.

Dodd maintains that the regulations he envisions are minimal. The bill would establish a national advisory committee to set standards in five areas: child-staff ratios, staff size, health and safety, qualifications for day-care providers, and parent involvement. The standards would apply to home-care providers as well as day-care centers. States would have five years to phase in compliance.

As for costs, Dodd says opinion polls consistently show that an overwhelming majority of Americans support greater federal involvement in child care, including higher government expenditures.

Dodd also ties his legislation to welfare reform. The federal government spends $10 billion a year to support welfare mothers, many of whom say they can't go to work because they don't have access to affordable child care. Research shows that quality programs, such as Head Start, also help children from poor homes develop the skills necessary to become productive members of society.

"The conservatives can't have it both ways," says Dodd. "They can't argue that welfare mothers should go to work and deny a government role in helping them with day care."

In fact, conservative think tanks in Washington have criticized both the Dodd and the Hatch bills. "Hatch is just 'me too, but cheaper,' which is the traditional Republican response to new Democratic social programs," says Douglas J. Besharov, a resident scholar at the American Enterprise Institute. "But there is nothing in the Hatch proposal, once enacted, to keep it from be-

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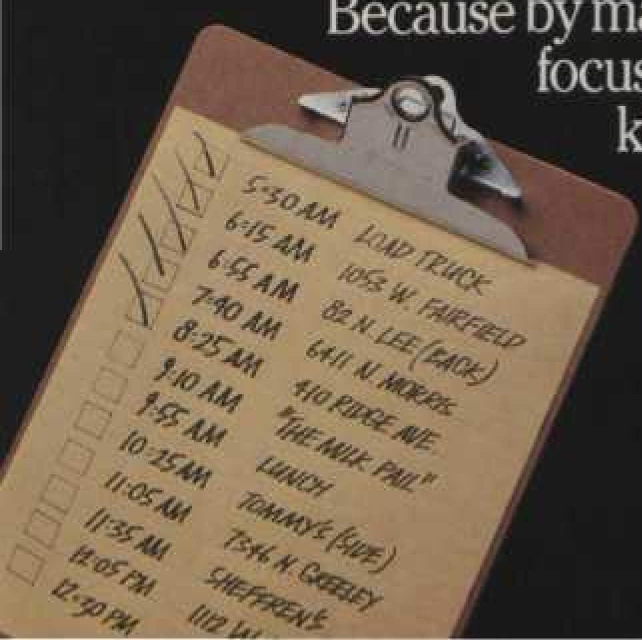

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The Tysons Corner Play and Learn Children's Center was spearheaded by a consortium of 22 local businesses that contributed money and expertise. For Cindy Hogge, employed at one of the member companies, it's a joy to share the drive to and from her office with her daughter Monica (the pig-tailed little girl second from the left).

PHOTO: T. MICHAEL KEZA

Child Care By Consortium

"My mommy is coming to take me to lunch," Monica Hogge, a wide-eyed 4-year-old, tells a visitor at a child-care center in an office park in Tysons Corner, Va. "We're going to Pizza Hut."

Taking her daughter out for lunch is a weekly ritual for Cindy Hogge, whose office is just a short walk from her daughter's child-care center.

A single mother, Hogge used to take Monica to a neighbor's house, then drive 45 minutes to the office. But now "we get an extra 1½ hours a day in the car together," Hogge says.

Cindy Hogge is a purchasing agent for Engineering Research Associates, Inc., a designer of computer systems. She is one of three employees at her company taking advantage of its support of the Tysons Corner Play and Learn Children's Center (PAL). Launched by a consortium of 22 companies, the genesis of PAL shows how local businesses can pool resources to minimize the costs of setting up a child-care center for their employees.

"Building a child-care center is much cheaper than you think," says Frank McCarthy, executive director of the National Automobile Dealers Association and president of the board that got PAL up and running. "And, it results in favorable public relations within your community and company that is worth every penny you'll spend."

The founders of PAL came together through participation in TyTran, an association of executives who confer from time to time on traffic problems in the area. Meetings generally included discussion of how child care affects workers' travel patterns. So TyTran commissioned a study of the problem.

That job went to Sherri Sheridan, the director of PAL Corporate Child Care, Inc. She found that 800 children were candidates for an on-site child-care center and recommended that TyTran members form a consortium to build one. The proposal was not greeted with enthusiasm. The firms "were scared to death of being slapped with a $10 million lawsuit," Sheridan explains. It was the height of the liability crisis, and stories about child abuse in day-care centers were front-page news.

It looked like PAL would never happen, but then Earl Williams, CEO of BDM International, Inc., a defense contractor, stepped in. Rep. Frank Wolf (R-Va.), who had heard that a child-care center might be built in his district, had urged Williams to mobilize the support of his fellow CEOs.

That was the critical first step. "The impetus had to come from the top," says McCarthy. "For only the CEOs could designate one of their top executives to serve on the board that would be needed to pull the whole thing together."

Made up of representatives from 15 companies, PAL's founding board of directors convened every three weeks for the next nine months. Many of the two-hour morning sessions focused on removing the biggest obstacle to an employer-supported center—liability.

Melanie Riley, a board member and attorney for McGuire, Woods, Battle and Boothe, found a solution in incorporating the center as a nonprofit, parent-run cooperative that is tax-exempt under Section 501(c)3 of the tax code. That made the parents liable in the event of negligence but enabled the companies to make tax-exempt charitable donations to a start-up fund; for a $1,500 contribution, they reserved one space in the center.

The fact that PAL is run by parents was recognized by its insurance carrier as a safeguard against negligence. That lower risk is reflected in PAL's insurance premium of $5,000 a year for a $2.5 million policy.

With more than 30 companies backing PAL, the consortium quickly raised close to $115,000 to reserve 67 spaces out of a total of 87; an additional $35,000 was secured under terms of a low-interest bank loan.

Next, the consortium hired Sherri Sheridan to handle the details—getting PAL the myriad of licenses required by local and state agencies. "This is where you bump up against the tyranny of petty authority," she says.

For instance, one Virginia rule requires a $10,000 commercial refrigerator in centers that prepare food. Because PAL planned to use a catering service for meals, Sheridan argued that an ordinary $500 refrigerator would be sufficient and got the state planning board to approve the change. But the health inspector who visited PAL a few days before its grand opening insisted that the center install a commercial refrigerator. Sheridan is appealing the department's decision.

Sheridan also found PAL's developer who says he saw in PAL the opportunity to add an "amenity that might help attract tenants." Indeed, Ed Romanow president of the Westerra Group in San Diego, was so committed to the project that he subsidized the construction cost of the 4,000-square-foot center; PAL's annual rent amounts to paying $20 per square foot even though Romanow spent $40 per square foot to comply with state regulations.

Now out of the picture, the founders can reserve future slots for their workers by contributing the equivalent of $1 per employee a year to PAL's budget.

—*Karen Berney*

coming a multibillion-dollar program within a few years."

Robert Rector, director of domestic policy at the Heritage Foundation, maintains that Dodd's bill engages in "reverse Robin Hood" distribution of federal funds. It would transfer tax dollars from working-class and low-income families who can't afford to put their children in day care to more affluent two-earner families, which are the major users of the day-care centers.

Rector maintains that tax reform is the most equitable solution to the child-care problem because it requires no new bureaucracy and allows parents to make their own choices. Accordingly, the Heritage Foundation has joined a coalition of pro-family groups calling for parents to receive a direct tax credit of $750 a year for each child under the age of 6, and for expanded refundable earned income tax credits for low-income families.

Dodd, who dismisses the tax reform alternative as unrealistic, says "you have to help poor people throughout the year, not just at tax time."

Hatch admonishes his conservative friends to "get their heads out of the sand" and realize that child care is a problem that "requires giving the family a boost" through a variety of federally sponsored efforts.

Although the federal government has no program solely to provide direct assistance to families needing child care, it already spends over $4 billion annually on child-care services. The dependent-care tax credit, the largest government effort to help families with child care, represents about $2.7 billion a year in forgone revenues. Middle- and upper-income families are its prime beneficiaries.

Social services block grants to the states and Head Start's educational day-care programs for children of the poor represent an additional $1.3 billion a year. But this sum is smaller than in previous years. The block-grant program was reduced by 20 percent in 1982, and even with subsequent increases, 1988 expenditures adjusted for inflation are less than half those of 1977.

Whatever Congress decides to do about the pending child-care legislation, it is clear that the issue for employers is only going to grow in magnitude. The Labor Department projects that by the year 2000 approximately 47 percent of the work force will be women, and 61 percent of all women will be at work. Moreover, women will constitute about three fifths of the new entrants in the labor force over the same period.

The presence of women in the workplace will be all the more important because the supply of labor in the 1990s will grow more slowly than at any time since World War II. Employers will be competing not just for profits but for qualified workers, more and more of whom will be women. Says Hatch: "The businesses that are smart will do something about child care." NB

To order reprints of this article, see page 42.

MANAGING YOUR BUSINESS

Deciding Who's To Blame

By Roger Thompson

Four years ago, Harry Featherstone's little company almost went under after a product-liability suit against it was settled for $6.2 million—even though his firm's product wasn't defective.

Featherstone's firm, the Will-Burt Company of Orrville, Ohio, was sued after a 1980 accident in which scaffolding that included parts made by Will-Burt slipped at a Florida construction site. One worker was killed, another was made quadriplegic.

The company's parts weren't defective, says Featherstone, and the scaffolding was designed and built by another firm. Nevertheless, after the scaffolding company went bankrupt, Will-Burt was sued under the theory that all companies involved in the production and sale of a defective product are jointly liable for any injury it causes.

Will-Burt's insurance company settled out of court for the full sum demanded by the plaintiffs, the company lost its liability coverage, and its attorneys advised it to go out of business. Instead, Will-Burt discontinued three product lines, laid off 80 workers and struggled successfully to rebound.

But the settlement and its aftermath might have been avoided, or the suit might never have been filed, if there had been a federal product-liability law like the one proposed in a bill now working its way through the House of Representatives.

The bill would create a uniform federal standard holding a manufacturer liable only if a claimant establishes that the manufacturer's product was defective and unreasonably dangerous.

Product-liability cases now are settled in accord with state laws, which have led to a hodgepodge of conflicting legal responsibilities for manufacturers. A plaintiff can win a suit in one state, lose in another and be prohibited even from filing in a third.

The proposed legislation, which contains a number of other provisions designed to shield manufacturers from unreasonable claims, stands the best chance in years of breaking the Capitol Hill stalemate that has killed previous attempts to reform product-liability laws, say the measure's proponents.

"There has never been such favorable reaction" to a product-liability bill, says Rep. William B. Richardson (D-N.M.), author of the legislation. Richardson's credentials as a liberal Democrat and consumer advocate have gone a long way to secure bipartisan support for a cause formerly branded a conservative, Republican issue.

PHOTO: BRUCE ZAKE—PICTURE GROUP

Harry Featherstone, president of the Will-Burt Company, Orrville, Ohio, has lobbied to change the product-liability laws that almost put his small firm out of business.

The bill does contain a number of provisions long sought by business:

- Manufacturers would escape liability if they did not know or could not know of a design defect, or if there was no feasible alternative design.
- Manufacturers and sellers would avoid liability if the plaintiff was under the influence of drugs or alcohol when injury with the product occurred and if the drugs or alcohol accounted for more than 50 percent of the responsibility for the harm.
- The manufacturer of a drug or medical device would not be liable simply because the product was "unavoidably unsafe."
- A product's sellers would be liable only for their own negligence or for a product's failure to conform to an express warranty made at the time of the sale—unless the court determines the manufacturer lacks funds to pay the judgment.
- Regardless of state requirements for awarding punitive damages, a plaintiff would have to supply "clear and convincing evidence" that the defendant's conduct warranted such damages.
- Claimants in most instances would have to file within two years after they discovered—or should have discovered—the harm and its cause.

"The objective with this legislation is to make the laws more equitable," Richardson says. "Instead of having 50 different product-liability laws in the states, we would have one uniform, fault-based standard that allows everybody to know what the score is."

Richard L. Lesher, president of the U.S. Chamber of Commerce, says the bill "is a good first step toward reforming this costly, unpredictable and time-consuming system."

"If we had had this law back in 1982 [when his company was sued]," says Featherstone, "I could have fought a good battle in court."

To broaden support for his bill, Rich-

A product-liability measure now working its way through Congress could redefine the risks of doing business.

ardson has made concessions to consumer advocates, who historically have been among the most outspoken opponents of product-liability legislation.

One concession requires manufacturers to warn consumers of product dangers discovered after products leave their control. The other establishes a mediation process to encourage out-of-court settlement of claims.

Certain controversial issues in product liability are not addressed in the measure, however. For example, the bill does not set limits on awards for pain and suffering claimed by accident victims. Also, it does not overturn the collateral-source rule, which prohibits a jury from hearing information about a plaintiff's compensation from a source other than the defendant. Nor does it restrict the controversial legal doctrine of joint and several liability, which allows a plaintiff to recover the full amount of damages from a defendant only partially responsible for a wrongful injury.

But no amount of exclusions or concessions would appease the bill's most determined foe, the Association of Trial Lawyers of America, the group that represents plaintiffs' lawyers.

Says the association's president, Eugene Pavalon: "The bill is unworkable because the measure would impose a federal standard on the states that would then be interpreted by state and federal courts, resulting in total chaos in the courts."

This view is shared by the Conference of Chief Justices, which represents the chief justices of state supreme courts.

Despite such opposition to his bill, Richardson expects it to pass the House this summer.

The measure has won support from influential House members, among them Energy and Commerce Committee Chairman John D. Dingell (D-Mich.); the committee's ranking minority member, Norman F. Lent (R-N.Y.); and subcommittee chairman James J. Florio (D-N.J.).

In the Senate, Richardson says, the bill's future remains "very uncertain," largely because of expected opposition from Sen. Ernest F. Hollings (D-S.C.), who is chairman of the Commerce Com-

Regrouping The Risks

Soaring liability-insurance rates and policy cancellations forced Congress two years ago to enact legislation to help beleaguered businesses, professionals and municipalities help themselves.

The Liability Risk Retention Act of 1986 prompted explosive growth in what is generally called self-insurance.

Self-insurance isn't a new idea. Congress passed a 1981 law that permitted businesses with similar risks to purchase insurance in groups or to form their own product-liability companies—risk-retention groups. Only seven such groups or companies were formed.

In 1986 Congress expanded coverage to general liability. In little over a year, 37 risk-retention groups and 196 purchasing groups had formed, according to the January, 1988, issue of *The Risk Retention Reporter*, a San Francisco-based newsletter.

Karen Cutts, the newsletter's editor, notes that some experts expect at least 1,000 such groups to form in the next several years. By 1990, half the liability-insurance market may be channeled through one of these new routes.

A 1986 Commerce Department study says the major concerns with risk-retention groups are potential undercapitalization and the lack of guaranty funds to pay claims if the company goes bankrupt. But it was more critical of purchasing groups, because they were so new that there was insufficient information to detect potential abuses.

Robert Eubanks, Arkansas' insurance commissioner and chairman of the National Association of Insurance Commissioners' committee on liability insurance, says: "The jury is still out on purchasing groups. A blanket criticism would be unfair, but the potential for harm is there."

mittee. Hollings has scuttled product-liability legislation in the past.

While the congressional outlook for product-liability reform remains problematic, most states have moved ahead with their own reform measures. In the past two years, 22 states have eliminated or modified joint and several liability laws, according to the American Tort Reform Association. The Washington-based coalition of trade associations and businesses works to change laws that govern compensation for personal injuries and property damage.

Seven states last year enacted legislation limiting a plantiff's ability to collect payments from two sources as permitted by the collateral-source rule, and 13 states either capped or strengthened the standard of proof needed to claim punitive damages.

New Jersey enacted a bill that holds manufacturers blameless for injuries caused by an inherently unsafe aspect of their product that anyone could recognize or that was indicated in an adequate warning. A California package included an item defending companies that manufacture products that benefit society but are inherently dangerous.

Last year, 23 states passed legislation regarding tort law, which includes product liability. This year, tort-reform bills are expected to be considered in 31 states, says the American Tort Reform Association. For example, the modification of joint and several liability will be a key initiative in 13 states this year, 14 will consider bills to eliminate the collateral-source rule, and 12 will try to cap punitive-damage awards.

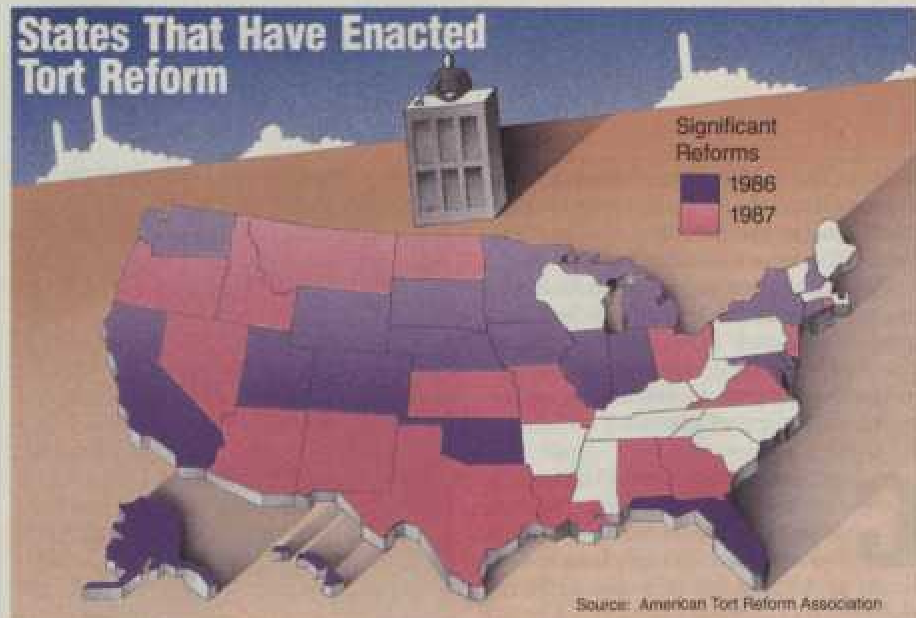


CHART: DALE GLASGOW

Executive Director Blair G. Childs says, "The incentive for reform stems from the fact that there are basic problems with fairness and predictability" in tort law, including product-liability standards.

Featherstone agrees that product-liability law needs reform: "I've got 300 people whose homes and lives are wrapped up in this little company. And it's a sin and a crime when one accident could take it all away, even when they haven't done anything wrong." NB

Preventive Medicine

There are things you can do to protect your company from the risks of liability other than buy more insurance. Start with a basic checkup of your company's potential problem areas, says Phillip M. Davis, a Lynnfield, Mass., lawyer who advises companies on how to avoid liability pitfalls. "A little preventive medicine can go a long way toward heading off big legal problems."

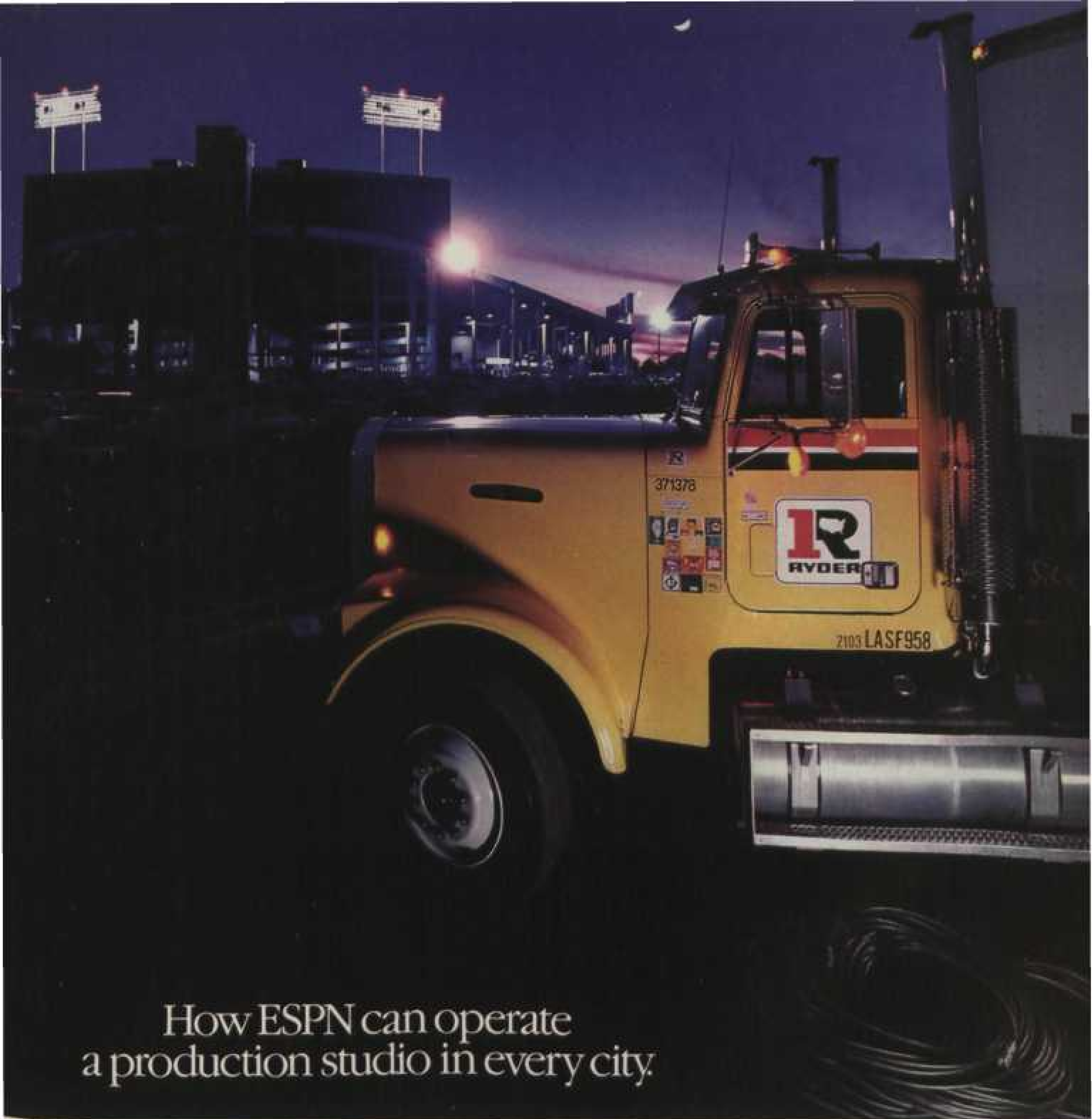
Some companies take risks they don't recognize. Davis cites the example of a firm that advertised that its product met certain industry standards when in fact the company had not tested the product in years.

"Juries look for excuses to give plaintiffs money," Davis says. "If you don't give them an excuse, they won't give the plaintiff a dime."

Many companies hire consultants to conduct so-called liability audits. But you can take certain precautions on your own, says George L. Head, vice president of the American Institute for Property and Liability Underwriters, in Malvern, Pa. He suggests that you:

- Keep track of litigation involving your type of product, not only in your state but across the country. If someone wins a case against a product similar to yours, you should know about it. Your trade association or your attorney should get you that information.
- Ask your insurance company about claims against products like yours, and ask also if it can give you liability-prevention pointers on manufacturing, packaging and advertising.
- Make sure you meet any federal, state, trade or industry standards for your product.
- Be very careful not to overstate claims for your products in advertising. Avoid unsupportable assertions and safety-related puffery.
- Train your marketing staff to instruct retailers and consumers how to use your product. Also be sure to highlight the potential dangers.
- Maintain a top-notch quality-control program, and carefully document safety considerations that went into design and testing.
- Make sure your product and its package are in good shape at the store. Train wholesalers and retailers to return defective merchandise.
- Ask for suggestions to make improvements in your product.
- React quickly to injury claims. If someone receives a minor injury from your product, pay the medical expenses right away and show your concern. If you succeed, claimants will tell friends that you took great care of them and will not sue you.

Companies that take such precautions, Davis says, stand a better chance of finding liability insurance and holding down the rates.



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MANAGING YOUR BUSINESS

To Lease Or Not To Lease

By Julie Candler

PHOTO: MARY ANN CARTER

Like the "sticker shock" that can hit shoppers in a new-car showroom, the Internal Revenue Service's "schedule shock" has struck many businesses operating trucks or cars.

Companies now know how automobile and truck-related regulations of the Tax Reform Act of 1986 are affecting them. As a result, many are rethinking their vehicle-acquisition policies. Is it better to own, lease or let employees provide the vehicles they use?

"We are back to the real economics of running a business, as opposed to a tax ploy," says Robert Miesen, senior vice president of GE Capital Fleet Services, in Eden Prairie, Minn.

Leasing seems to be receiving the most attention. "We're noticing a big increase in our volume," says John Polk, vice president of marketing at McCullagh Leasing, Inc., in Roseville, Mich. It is the fourth-largest passenger-car leasing company in the nation.

"A survey of our members in late 1987 shows about half the 2.7 million vehicles they manage are leased," says David P. Lefever, executive director of the National Association of Fleet Administrators. "However, of those who own, about 10 percent indicated their company was at least considering leasing, mainly because of the new tax law." The tax-reform law is also making leasing more attractive to firms using medium- and heavy-duty trucks.

Fleet Owner magazine predicts that 40 percent of the nation's largest trucks, the heavy-duty Class 8s, will be leased by 1992. The magazine reports that the No. 2 truck lease/rental firm, Hertz-Penske of Reading, Pa., expects to purchase 9,300 new vehicles this year, a 21 percent increase over 1987. The largest, the giant Ryder System, is looking at 23,000 additions to its fleet.

Julie Candler is a free-lance writer in Bloomfield Hills, Mich.

Wayne Wolven, general manager of operations for Caito Foods in Indianapolis, says a combination of leasing and ownership works well.

It takes shrewd calculating to discover the most cost-efficient policy. Now is the time to do it, advises Adlore Chaudier, of Runzheimer International, a Rochester, Minn., firm that tracks transportation costs.

As director of consulting services for Runzheimer's publications division, Chaudier sees this as a transition period. "Companies are still working their way out of decisions related to tax reform. You will see more changes for 1988. We would recommend that companies review their fleet policies ... in terms of the overall corporate tax picture under the new law."

At the time Runzheimer International released a 1987-88 survey in August, 1987, it reported a 6 percent drop in total leasing since 1983. In contrast, fleets surveyed by the management-consulting firm indicated that employees providing vehicles climbed from 7 percent to 12 percent. Chaudier says the move to employee-provided cars is being made because of tax reform, corporate efficiency programs and rising insurance rates.

All of the 81 cars and trucks owned by Shaw Industries at a Cartersville, Ga., plant were sold at the start of the year. Madalyn Cope, former fleet manager at the location, says employees were asked to provide their own vehicles following a corporate-wide decision by the nationally known carpet and yarn manufacturer, which is based in Dalton, Ga. Employees are not objecting to the request, she says. "Now they get an allowance for the use of their own personal vehicles."

But David Lafever of NAFA maintains that employee-provided cars are not practical for large fleets. "When all is said and done," adds John Polk of McCullagh Leasing, "reimbursing the employee is the most expensive option if you are going to do it fairly."

A major incentive for leasing comes from the loss of the investment tax credit of 6 percent to 10 percent formerly claimed in the first year of ownership. It no longer applies to cars and trucks placed in service after July 1, 1986, or to trailers after Jan. 1, 1987.

The tax change that may be the costliest for business owners of cars and light trucks is centered in the new depreciation schedules. The three-year write-off was changed; cars and light trucks are now five-year assets. And yearly depreciation amounts must be calculated on the $12,800 luxury-auto limitation, no matter how much the car costs.

"We are quite disturbed," says Fleet Operations Manager Johnnie

That is the question that many businesses answer affirmatively after they examine the cost benefits and the tax advantages of letting someone else supply the wheels.

Schmauder of Tektronix, Inc., in Beaverton, Ore. "The new tax law sets the price of a luxury vehicle at $12,800. That's the most you can use for depreciation purposes over a five-year period."

Schmauder's firm owns its nationwide fleet of 1,000 vehicles, but that may change, he says. "Inflation has raised the value of some of our fleet's intermediate-size station wagons and minivans almost to the luxury category. Their retail price is probably more than $14,000."

The tax law's limit for depreciation over three years, the lifetime of most business cars, is $9,110 ($2,560 the first year, $4,100 the second, $2,450 the third).

While there's a limit on deducting lease payments on luxury vehicles, the entire monthly payment for most leased cars and trucks used exclusively for business is tax-deductible.

Depreciation on medium and heavy-duty trucks is also affected. Tractors remain three-year assets, while trailers and heavy-duty trucks continue on a five-year schedule. However, the periods may be four and six years respectively under the new Alternative Minimum Tax (AMT).

The AMT is designed to insure that all businesses pay at least some tax. The law requires many firms to figure their taxes using the standard method and again using an AMT formula. It makes accelerated depreciation of capitalized items such as heavy trucks and machinery tax-preference items, which must be added to income. The preference can be avoided by using the straight-line method of depreciation.

A company may take $4,000 accelerated depreciation on a truck, when it is only entitled to $3,000 under the straight-line method. Under AMT, the firm must count the $1,000 difference as a preference, which must be added to income. It virtually precludes companies from completely avoiding federal income tax through deductions.

Leasing allows companies with large holdings in vehicles, machinery or equipment to skirt that issue. Lease rentals are not AMT preference items.

The new tax law prompted Black & Veatch, a nationwide firm of engineering consultants, to join the growing ranks of companies switching from company-owned to leased vehicles. James Barber, manager of administrative services, says the firm owned 285 vehicles, mostly half-ton, four-wheel-drive utility vehicles for maneuvering at construction sites. They also owned pickups and vans, as well as passenger sedans. At the start of 1987, the firm, based in Kansas City, Mo., sold its fleet.

James Barber, administrative-services manager for Black & Veatch, engineering consultants, says leasing improves cash flow and cuts costs.

Black & Veatch had been considering the move for some time. The 1986 Tax Reform Act convinced the firm it should switch to finance leasing, whereby it contracts to make monthly payments for the use of vehicles during their lease terms. "It gives us a better cash-flow situation," says Barber. "Also, we can pass on costs directly."

Finance leasing allows one direct expense for tax calculations. At the end of the lease term, the lessor takes over the task of finding a buyer for the used vehicle. In addition, some lease companies will provide a loaner vehicle while a leased vehicle is undergoing repairs. Lessors may also supply insurance coverage, sometimes at a lower rate than an owner can obtain.

A disadvantage of leasing is that you may be limited in your choice of vehicles. However, big leasing firms such as Ryder say they will try to give the lessee the truck that is specified.

Other disadvantages are explained in the book *Financing Matters*, distributed free by Ford Motor Credit Company and First Nationwide Bank. For example, you may need a better credit rating to lease than to own in order to cover the lessor's higher risk. You may not be eligible for high levels of liability insurance because you don't own the vehicles. If you drive the leased vehicle more than a set limit, such as 15,000 miles per year, you may be charged an extra fee based on the mileage. At the end of the lease term, you receive no proceeds from resale. Yet if the car is not in good condition when you return

it, you may be charged for excess wear and tear.

The nation's largest provider of full-service automotive leasing was formed in 1987 when General Electric Capital Corporation integrated Gelco Fleet Management Services with the large operations of Kerr Leasing and D&K Financial Corporation. The new company is General Electric Capital Fleet Services. The firm's Robert Miesen says: "Typically one of the advantages of dealing with a major is that they have good buying power. . . . We are able to obtain money in the marketplace at a cheaper rate than private lease financing. When a vehicle is sold for more than the book value, the lessee gets the credit. For less, the lessee pays the difference."

Vehicle makers and dealers are also grouping to attract customers with captive leasing companies. "A lot of fleets like the deal where they lease 10 to 20 cars and they can count on having their 10 to 20 every day," says Robert C. Stempel, president of General Motors. "Leasing through a dealer or through GMAC is a good deal when businesses combine that with a maintenance contract."

Ford Motor Company is acquiring United States Leasing International, Inc., of San Francisco as part of its plan to expand its financial-services business, including commercial leasing.

Even imported-car makers with little leasing experience are preparing to court fleet managers. John Borgen, director of fleet and leasing operations for Nissan Motor Corporation in the United States, in Carson, Calif., says: "The trend is to full-service leasing. More and more companies are finding it's advantageous to have [outside] experts handling their fleets for them."

Many truck fleets are also turning to full-service leasing. It increased 14.6 percent from 1983 to 1986, according to a survey by the Truck Renting and Leasing Association, in Washington, D.C.

Under full service, the lessor provides maintenance, replacement vehicles and management services in addition to the financing. The system usually relieves automotive fleet operators of the trouble of keeping records of personal use. Their forms include data lines on which drivers record both personal and business mileage, so that the lessor can give customers a statistical report.

In full-service truck leasing, the national leader is Ryder System's Vehicle Leasing & Services Division, in Miami. In 1986 it acquired Saunders System, Inc., a nationwide highway-transportation service.

In fact, the new tax law is low on the list of reasons for choosing full-service leasing of trucks, according to Douglas M. Slack, vice president of Ryder Truck Rental, Inc., in Miami.

Like many other truck-leasing companies, Ryder provides fuel as part of its full service. Slack claims high-volume usage lets the company offer the service at lower rates.

Insurance also is a factor. "For small businesses, a much higher percentage elects to have us provide the insurance. Large customers have their own insurance divisions," says Slack. "Typically, we can provide rates that are very competitive."

Another benefit of full-service leasing is pointed out by PACCAR Leasing, a division of the corporation that produces the Kenworth and Peterbilt trucks. PacLease says total transportation costs can be projected for accurate budgeting. The firm also provides fuel credit cards for easier bookkeeping, and it documents each vehicle's mileage and routes for fuel-tax reporting.

James L. Shiplet, PacLease's president, says the division's 94 dealers and 325 service centers now make it possible to handle a company's full-service leasing needs across the nation.

The full-service lessor can obtain all licenses and permits, conduct safety clinics, test and evaluate drivers, keep trucks washed, park them when they're not in use, replace worn tires and handle emergency road service.

A combination of full-service leasing and ownership works well for Caito Foods, Inc., an Indianapolis produce distributor. The company owns 23 mid-sized through Class 8 power units, and contracts for full-service leasing of 24 Kenworth Mid-Rangers and T600As through PACCAR Leasing. "I also let PacLease do all the maintenance on our owned equipment," says Wayne Wolven, general manager of operations.

Ryder's spokesmen say truck rental is another major growth area. "If a company isn't utilizing their equipment 70 to 80 percent, they should be looking at rental," says Dave Dawson. "A small business ... can use rental trucks as no-risk transportation to test opportunities for growth. If the business grows, they can turn to full-service leasing, and they won't have to lay out capital."

Tektronix, Inc., in Beaverton, Ore., is "disturbed" by the tax law's impact on depreciation, says Johnnie Schmauder, fleet operations manager.

PHOTO: RICK RAPPAPORT—BLACK STAR

The same companies that provide full-service leasing often provide dedicated contract carriage, a popular alternative to ownership. "It's the fastest-growing trend," says Douglas Slack of Ryder. "We provide the equipment, the drivers and complete management of the transportation system."

At Lend-Lease Trucks, Inc., in Minneapolis, President and CEO Joseph Evangelista expects vehicles in dedicated contract carriage to double to 200 this year. Lend-Lease, owned until last October by National Car Rental, claims it is now the nation's largest owner-managed truck-leasing company.

Evangelista predicts that as trucks purchased after deregulation mature beyond the tax-credit recapture period, their owners will be exploring alternatives to ownership—dedicated contact carriage, one-way-only contract carriage, full-service leasing, or ownership with contract maintenance.

"We want to be a transportation consultant," says Evangelista. "We can competitively purchase any vehicle the customer may want. First we attempt to analyze their needs and requirements. We quote on what they want, to give a basis of comparison. We may show a company an alternative we think will be more cost-effective.

"We will design a route so that it is most efficient in load-miles to maximize driver time, fuel economy and fuel pricing on the road. We want to put together the package that allows a customer to be more cost-effective in a rate-sensitive marketplace."

One advantage of dedicated contract carriage is that the carriers take over the screening, testing and training of drivers. They handle paychecks, insurance, pensions, labor relations, hiring, firing, grievances and safety programs. Best of all, they provide substitute drivers when necessary.

To help companies compare the costs of ownership against leasing, Ryder's salespeople use a computer program called "Lease vs. Ownership." It lets owners plug in their costs of maintenance, depreciation, mileage, fuel expenses and other data. Then they can compare their costs with Ryder's proposed leasing costs, which include tax consequences.

In Oregon, Schmauder of Tektronix says: "We think it's better to own, unless you have a better use for your capital. It's going to become more and more important, though, for owners to carefully monitor acquisition and disposal.

"Our tax year starts June 1. That's the end of the model year. We could get year-old models before the start of the fiscal year to get the first-year tax credit. Then we may keep them through two full years and get rid of them after June 1 in the fourth year. So we could depreciate them for four years, even though we only owned them about 26 months."

Whether companies own or lease, they still will have administration costs. David Lefever doesn't see members of the Fleet Administrators' Association being concerned about their jobs, even if they switch their vehicles to full-service leasing. "Most major leasing companies argue that you still need a corporate fleet manager inside the firm.

"Fleet managers may not need someone to do routine maintenance or handle accident reports, but they still need someone to handle budget and to supervise the vendor," says Lafever. "What you gain from full-service leasing are experts and things like 24-hour service, but you don't save a whole lot. They are going to pay a mechanic just like you would, and they want to make a profit on it."

With a full-service lease bill each month, a business can gain better control over costs and reduce its chances of being hit with IRS "schedule shock" at tax time. NB


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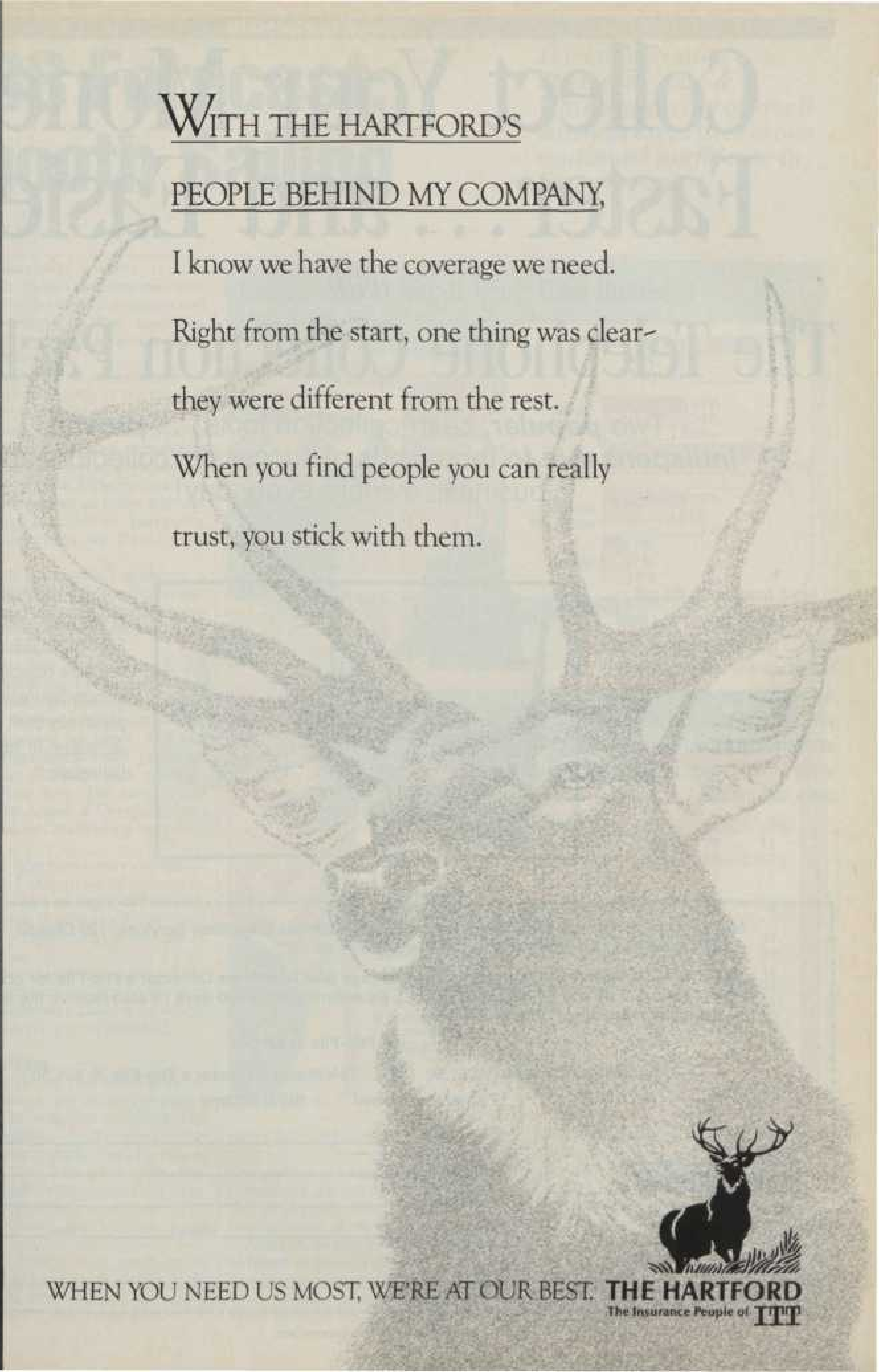
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MANAGING YOUR BUSINESS

1988 Forecast: Smooth Sailing

The latest Nation's Business-*Ernst & Whinney survey of small-business executives shows continued confidence in the economy.*

By Herbert S. Braun, C.P.A.

Small-business owners remain bullish about the financial outlook for their own companies and the economy in 1988, according to the latest *Nation's Business*-Ernst & Whinney survey.

While anxiety about an eventual recession edged up slightly in the past six months, the number of executives who expressed concern about the prospects of higher inflation dropped significantly in the same period. And even though many CEOs expect a higher prime rate this year, the number of those who are worried about the cost of borrowing money declined from the level of six months ago.

In line with their overall optimism, a substantial number of small-business executives said they intend to hire more workers to meet the demands of business expansion.

Those are a few of the expectations generally expressed by business leaders in the fourth semiannual economic-confidence survey commissioned for *Nation's Business* by Ernst & Whinney, a leading international public-accounting, tax-advisory and management-consulting firm. The survey was carried out by Angell & Company, Inc., an independent marketing-research firm.

Telephone interviews were conducted with 500 chief executives of companies with annual sales of up to $40 million. The CEOs were chosen at random from a statistically representative sample of U.S. companies.

Most of the executives surveyed are 35 to 54 years old; well over half earn more than $100,000 a year, with nearly one in five receiving over $200,000.

Current Conditions

Ninety percent of the executives of small businesses say their companies are in good to excellent condition. The largest companies in the group surveyed are particularly healthy—more than half of the CEOs whose firms had sales above $20 million said their companies are in excellent condition.

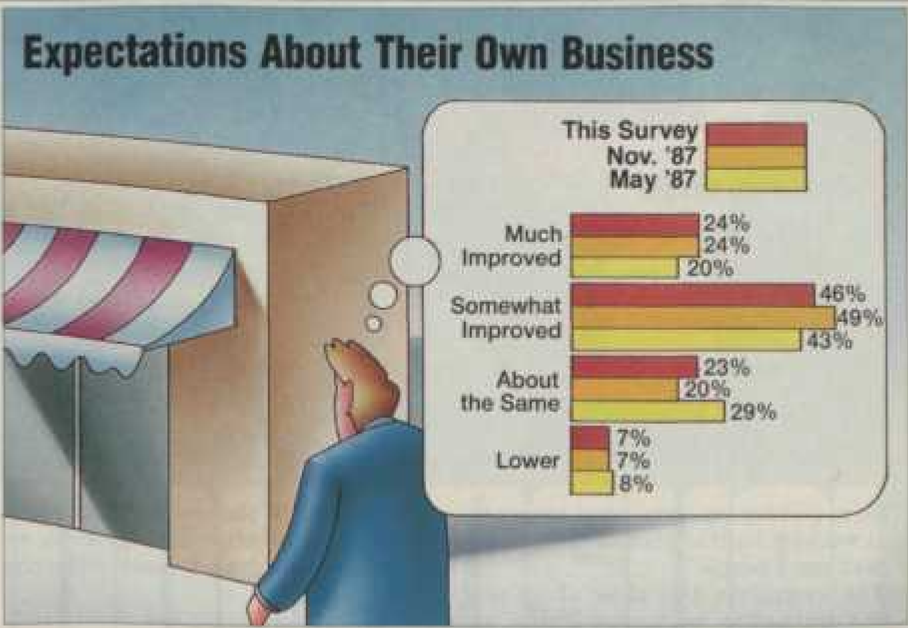
The executives think these good times will continue; 70 percent expect this year to be better than last. Although that is a small drop from the 73 percent of six months ago, it exceeds the 63 percent who were looking for improvement at the outset of 1987.

Another display of CEOs' confidence is found in their widespread intentions to expand employment. Half of the executives expect to do so—about the same level as six months earlier, and higher than a year before. The largest of the companies surveyed are slightly more likely than smaller ones to be hiring.

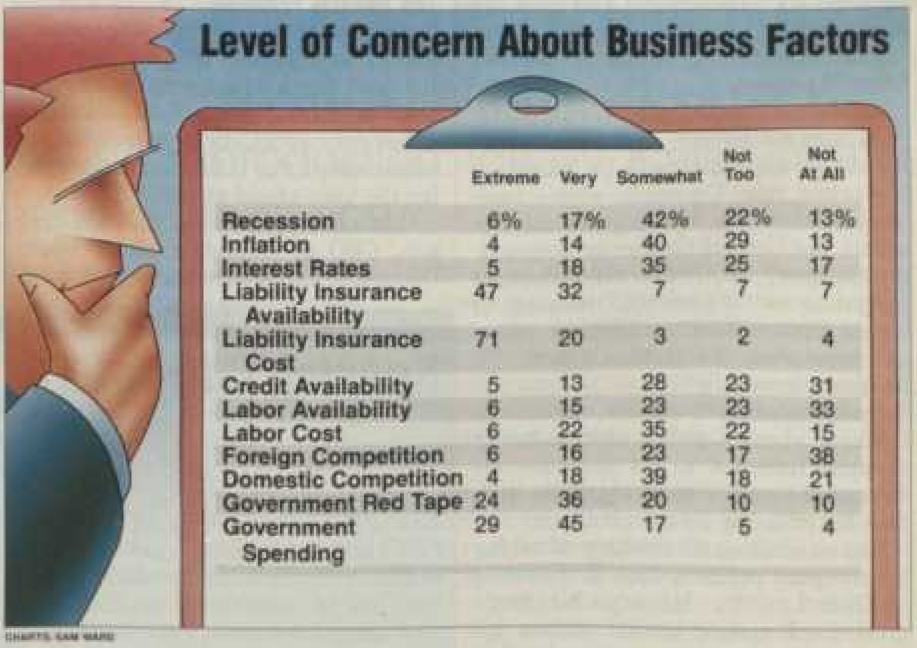
These expansion-minded executives feel assured about their own future. "We're a strong, aggressive firm, and we're going out there and getting new business," says Chicago advertising executive Edward Hammerman, president of Hammerman & Morse, Inc.

Herbert S. Braun is a partner in Ernst & Whinney and is national director of its services for privately owned and emerging businesses.

Expectations About Their Own Business

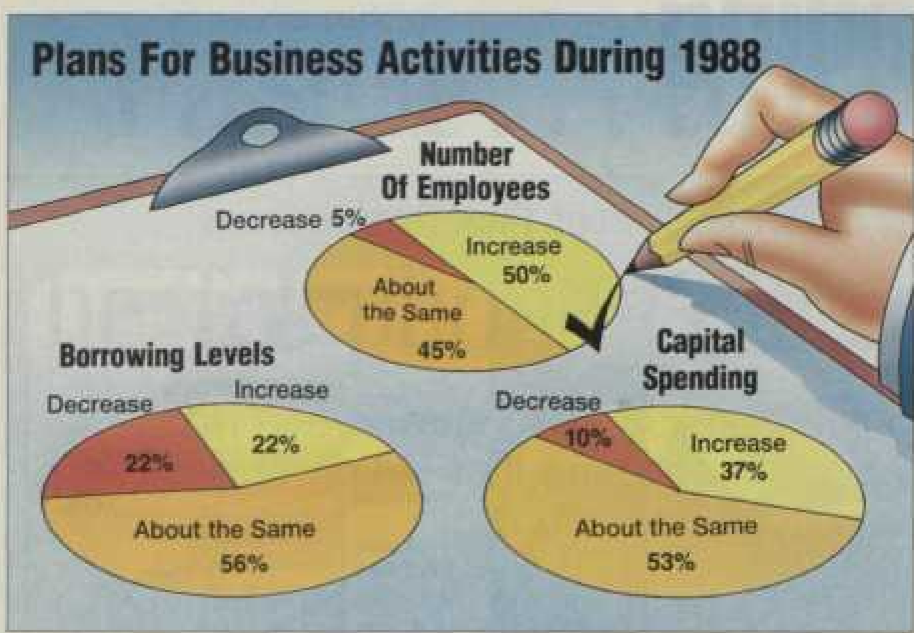


Level of Concern About Business Factors



	Extreme	Very	Somewhat	Not Too	Not At All
Recession	6%	17%	42%	22%	13%
Inflation	4	14	40	29	13
Interest Rates	5	18	35	25	17
Liability Insurance Availability	47	32	7	7	7
Liability Insurance Cost	71	20	3	2	4
Credit Availability	5	13	28	23	31
Labor Availability	6	15	23	23	33
Labor Cost	6	22	35	22	15
Foreign Competition	6	16	23	17	38
Domestic Competition	4	18	39	18	21
Government Red Tape	24	36	20	10	10
Government Spending	29	45	17	5	4

CHARTS: SAM WARD



"We're picking up some good accounts and working hard to get more. For that, I need more people."

The executives also show about the same inclination to borrow funds as they did six months ago. And over the same period, those planning to increase capital spending grew to 37 percent from 33 percent.

California businessman Wesley Creswick says his decision on how to finance his major expansion will be based on the prime rate. Creswick, whose business is wholesale feed ingredients, operates the Central California Commodity Company, in Clovis. "If I thought the prime would go down," he says, "I would finance the expansion by external borrowing. As it stands now, I'll finance it internally."

Over the past six months, executives thinking about a public stock offering dropped from 4.6 to 2.4 percent—one indication that the stock market's troubles are affecting CEOs' planning.

One executive still thinking of taking his company public is Jack R. Fairchild of Glen Lyn, Va. He says his firm's good track record should assure his success if he decides on a stock offering. His company, Fairchild International, Inc., manufactures equipment for underground coal mining.

"We realize that the market for new offerings has dampened since the market drop," he says, "but we believe that our products and technologies, as well as foreign-market potential, will support a market for our stock."

As in past surveys, those who are most bullish on their own companies give the bulk of the credit to such internal factors as better management, reduced overhead and more effective marketing.

The General Economy

Optimism about the economy showed almost no change in the past year. Over the past three semiannual surveys, 64 to 67 percent of respondents have been either very optimistic or somewhat optimistic about the U.S. economic outlook for the year ahead at that time.

One such optimist is William Simpson, CEO of Atlanta's Simco Supply Company, an industrial-supplies wholesaler. "The prime rate remains steady, and unemployment seems fairly stable," he says. "Looking at those issues, I think they should carry us fairly well over the next year."

Nevertheless, a number of executives express concern that economic conditions will cloud the future for their companies. Although the CEOs' fears of inflation and rising interest rates are moderating, they are increasingly apprehensive about a recession.

Recession

Anxiety about an eventual recession edged upward over the past six months. Executives expressing some level of concern about a recession reached 65 percent, compared with 62 percent six months earlier and 51 percent a year ago.

"I think we're ripe for a recession," says Nelson Orlen, who heads The Policy Mart, a Princeton, N.J., company that sells commercial and industrial insurance. "We're going to be looking at a new administration at the end of the year, building has started to slack off a touch, and the real-estate market has plateaued as well. Although interest rates have stabilized, all things being equal, I'm concerned."

Inflation

Fears of inflation, which had peaked in the previous survey, dropped in the most recent tally, from 71 percent to 58 percent. That is still higher than the 41 percent registered a year ago.

As they have in each previous sur-

Keeping Current

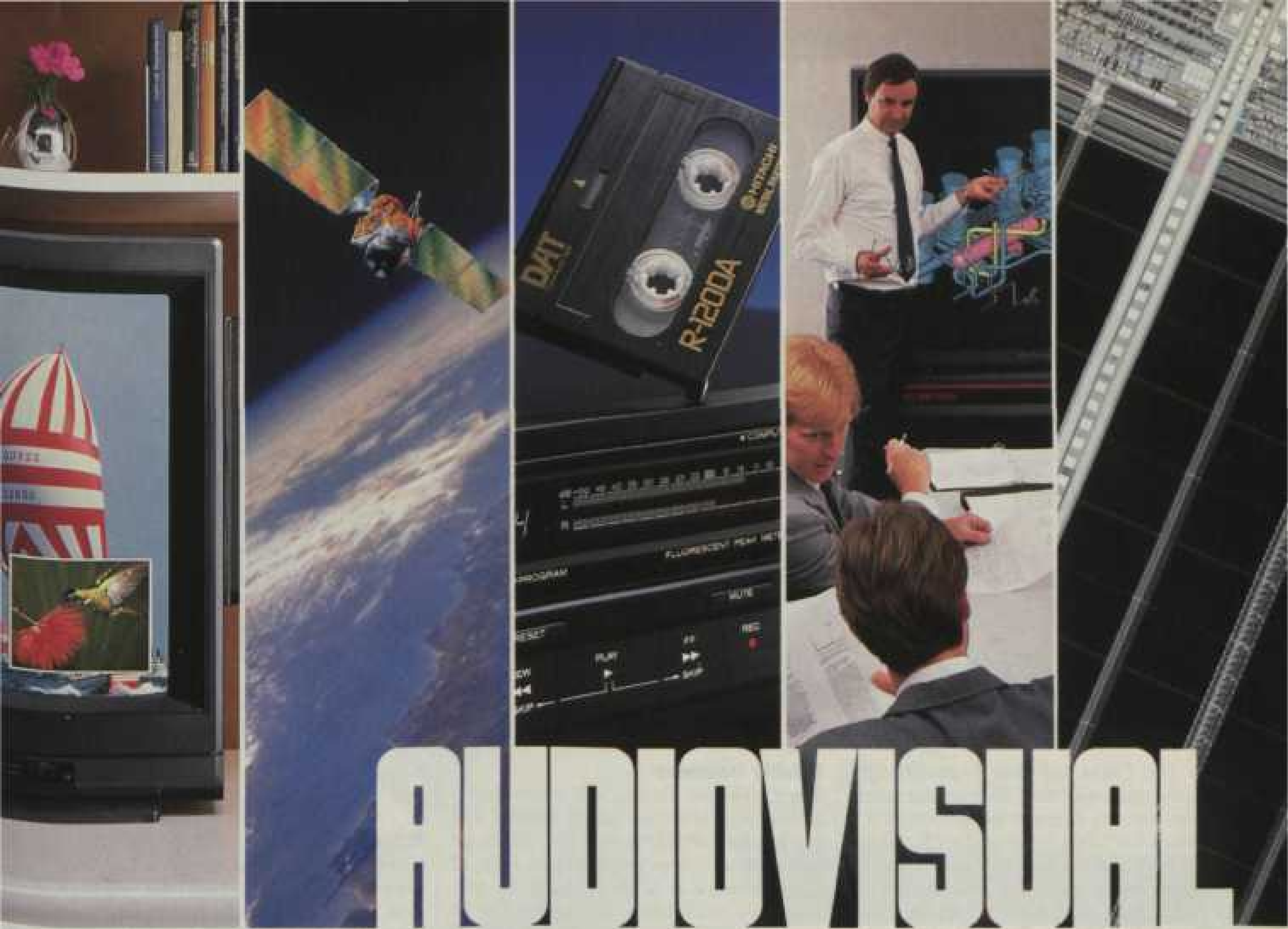
Executives spend nearly an hour and a half each day keeping up with current events and the latest thinking in their own fields, according to the fourth semiannual *Nation's Business*-Ernst & Whinney survey.

To stay on top of economics and politics, they read newspapers and business magazines and watch television news. They turn to trade magazines for more information about their own fields, management skills and technical topics.

More than half of the CEOs attend seminars to develop their management abilities further, and one third attend such sessions to hear more about technical developments.

CEOs of small businesses with the highest sales levels do spend significantly more time staying current—about 13 hours a week, compared with the average of 10 hours. Executives over 55 generally are the heads of the largest organizations in the survey, and those CEOs report they have less trouble keeping up with the flow of events. Overall, 45 percent of the surveyed executives complain they sometimes can't stay current.

Says Kriss Hilborn of Beaver Distributors, in Farmington Hills, Mich.: "I run a business. I have 6 locations, 58 employees, 3 children and a husband, and right now I'm off to a basketball game. Somehow there's never enough time to stay up on the issues."



AUDIOVISUAL

Hitachi's wide-ranging audiovisual technologies include Picture-in-Picture for simultaneous viewing of more than one program on a single TV screen, DAT, a high-density projection display, and frame memory used in IDTV.

AV should be more than faithful sight and sound reproduction. Ideally, it also creates drama and ambience.

Digital technology (the conversion of conventional signals into computerized zeros and ones) has led to a remarkable proliferation of audiovisual uses – in TV, for example, for more diversified and sophisticated programming and information services accessible through computer connections or videotex terminals. And this is only the beginning.

Hitachi's scientists and engineers are using digital applications such as frame memory to develop Improved Definition TV. IDTV will greatly improve picture quality without changing current broadcasting standards by doubling the density of scanning lines and increasing vertical resolution 1.5 times. This same Hitachi technology has resulted in the Digital Audio Tape recorder, which is capable of superior recording and reproduction.

Hitachi's original screen technology has led to high-density big screen projection TV, using screens up to 110 inches. It is contributing to a wholly new technology, High Definition TV. HDTV is capable of photographic quality resolution and will soon enable satellite services to transmit wide screen images that give the viewers the feeling of actually being there.

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Our goal in audiovisual – and in medicine, energy and transportation as well – is to create and put into practice products and systems that will improve the quality of life the world around.

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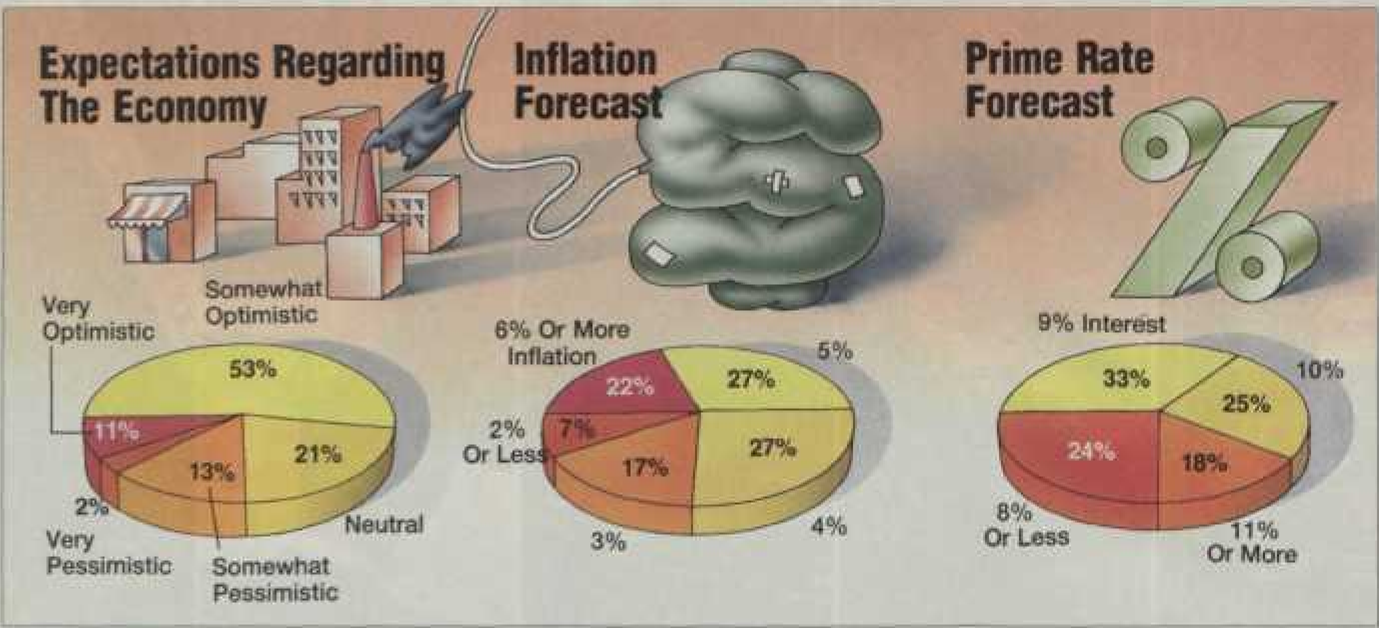
Hitachi, Ltd. Tokyo, Japan



vey, the CEOs say they expect the inflation rate will rise during the year. Their current average prediction is 4.7 percent for 1988, compared with a forecast of 5 percent six months before. In the survey a year ago, executives of small businesses predicted a rate of 3.8 percent for 1987, a forecast that came very near the actual mark of 3.6 percent for the year. The annual inflation rate reflects the year-to-year change in the average of each year's monthly cost-of-living figures; each monthly figure is the rate that living costs were up or down compared with costs in the same month a year earlier.

Interest Rates

The executives' prime-rate prediction of 8.5 percent on average for the end of last year also was relatively accurate, just under the actual percentage of 8.75. The average of the predictions this year forecasts the prime ending up at about 9.25 percent.

One CEO who thinks the rate will be even higher is A.J. Cantafio, president of Northeast Electronics Corporation, a manufacturing firm in Milford, Conn. The prime will hit 11 percent, Cantafio says, adding: "I believe we're going to have an economic reversal and a tightening of dollars."

Even though the CEOs expect the prime rate to rise, the percentage of those concerned about the rate they must pay to borrow money was smaller than it was six months ago. Fifty-eight percent now express at least some concern, compared with 72 percent a half year earlier.

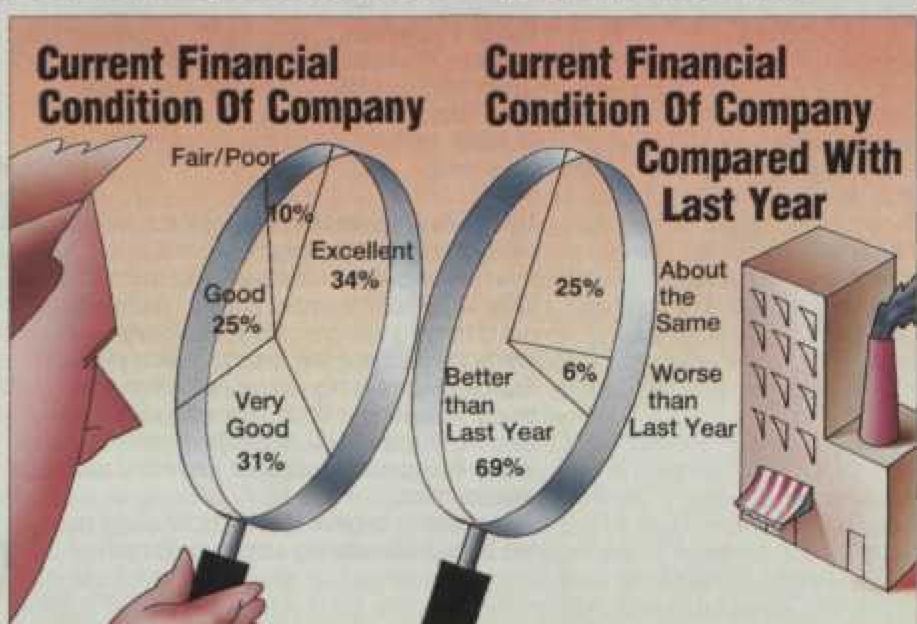
Liability Insurance

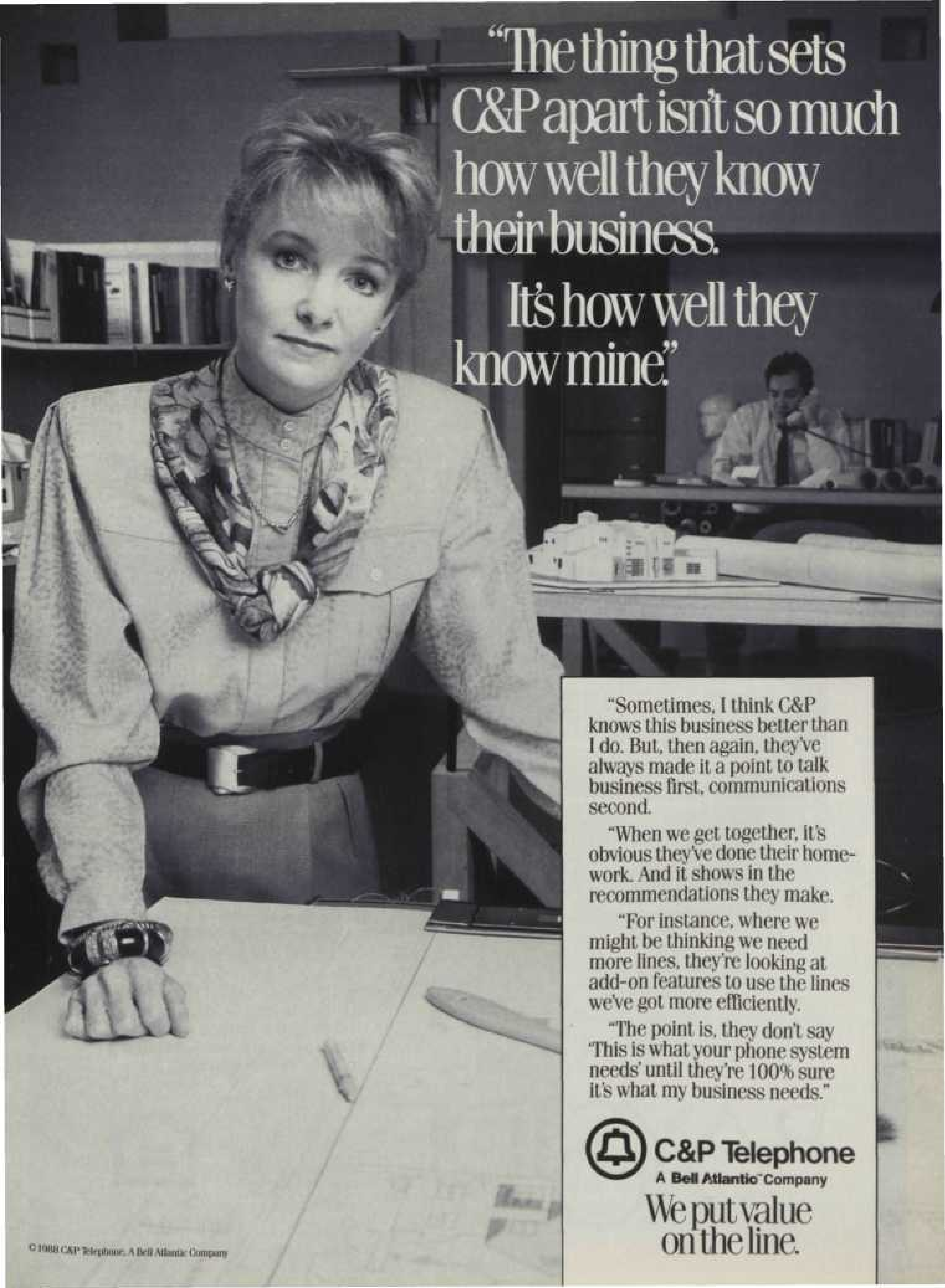
The executives also have become slightly less apprehensive about finding and paying for liability insurance, although their concern does remain high. Cost of the insurance is a concern for 91 percent, and availability is a worry for 79 percent, down from 96 percent and 85 percent, respectively, six months earlier.

Wholesaler Simpson in Atlanta has had no problem obtaining insurance, but cost is another story. "The cost of everyone else being sued is directly affecting my costs, which have tripled in the last two years," he says. "I have a hard time handling those costs, too. It's being taken right out of the bottom line."

Other Concerns

Government spending, which has troubled executives in the past surveys, now has three fourths of the CEOs extremely or very concerned. Bureaucratic red tape is another perennial irritant, with three of every five executives surveyed saying they are extremely or very concerned about it. Says Kriss Hilborn of Beaver Distributors, a Farmington Hills, Mich., wholesaler of ceramic tile: "The federal government is spending money it doesn't have, creating the potential for inflation."




"The thing that sets C&P apart isn't so much how well they know their business.
It's how well they know mine."
"Sometimes, I think C&P knows this business better than I do. But, then again, they've always made it a point to talk business first, communications second.
"When we get together, it's obvious they've done their homework. And it shows in the recommendations they make.
"For instance, where we might be thinking we need more lines, they're looking at add-on features to use the lines we've got more efficiently.
"The point is, they don't say 'This is what your phone system needs' until they're 100% sure it's what my business needs."
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"Something has to be done to curb federal spending," says James E. Johns, president of Bloom Engineering Company, in Pittsburgh. "There seems to be a lot of waste caused generally by the bureaucracy. No one seems to be pushed to do anything. The higher the spending level, the higher the taxes required to support it."

Other factors worry executives to a lesser yet substantial degree. Sixty-three percent indicate that they are somewhat concerned about the cost of labor, and 44 percent are concerned about its availability.

Management Actions

In this survey and in the previous one, more than 90 percent of the executives rated the following management activities as at least somewhat important to their near-term growth: increasing sales of existing products, minimizing taxes, attracting and retaining competent employees, and lowering overhead.

"Increasing sales will have the most effect on improving our operations," says Jack Fairchild, whose Virginia-based company manufactures mining equipment.

Pat Dutschke says good employees are essential to the health of her business, Texas General Insurance Agency, in Houston. "Our products are not different from those of our competitors. Our success comes down to quality service—and you've got to have great employees to give that service. Without good people, I lose that edge."

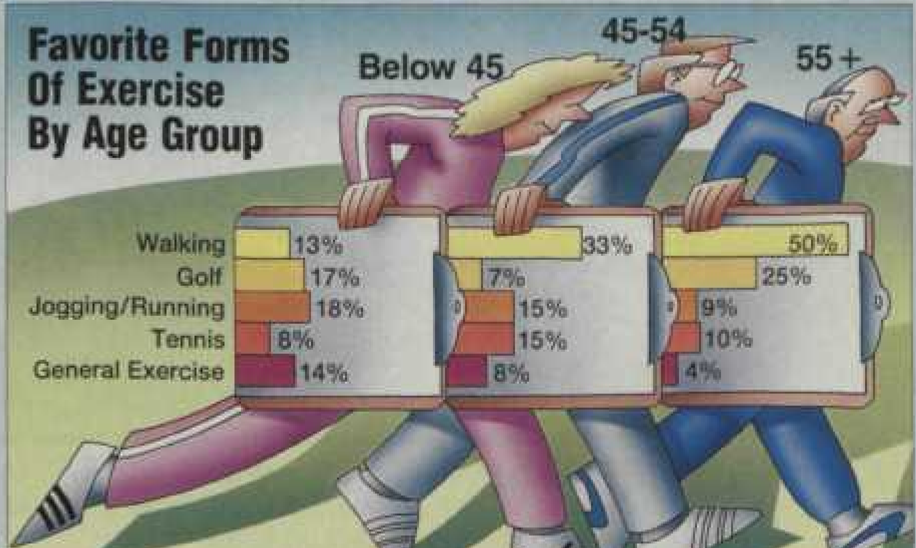
Acquisitions

The number of CEOs who think they are at least somewhat likely to acquire another company is more than double the number who say they might be bought out themselves, according to the latest survey. About 37 percent of the executives say they are somewhat, very or extremely likely to buy another organization within the year. Only 15 percent consider it at all likely their own company will be acquired.

Jerry Perry, president of Grace Energy Corporation, in Carthage, Mo., is one of those who intend to purchase another company. He says it is probably the only way to grow in the largely saturated field of convenience stores that also have gasoline pumps.

"Internal growth through additional construction would probably only add to the problem of saturation," he says. "By buying another company we could easily add 25 to 30 percent to our size, making us stronger in the marketplace." NB

Keeping Fit



CEOs of small businesses see themselves as a conspicuously healthy breed.

Almost all who took part in the latest *Nation's Business*-Ernst & Whinney survey report they are in good health. In fact, nearly half say they are in very good or excellent shape. Only 1 percent say their condition is poor; most of those CEOs are over 55.

That is not to say the older executives are not well-off physically as a group. In fact, they are actually more likely than their younger counterparts to claim they are in excellent health.

Business success may have something to do with it. CEOs with higher incomes and bigger companies also claim to be in better health.

And although the older executives may retire to the sidelines when the basketball game begins, that doesn't mean they are any less avid exercisers. The average executive over 55 spends more time exercising than his younger counterpart.

The executives surveyed keep themselves in shape through various activities, from weightlifting and hunting to aerobics and horseback riding.

The most mentioned form of exercise is walking—it is the favorite of one third of the CEOs. Golf is popular with 16 percent, jogging and running with 14 percent and tennis with 11 percent. Younger executives favor more strenuous pursuits such as racquetball and running. Participation in these sports and in general exercise falls off as they grow older, but walking gets more popular. It is the exercise of choice for half of the CEOs over 55.

Pat Dutschke, owner of Houston's Texas General Insurance Agency, walks four miles each day. "And when it rains, I use a video exercise tape," she says. "I exercise in the morning. It sets me up for the day and gives me energy."

JLee Smith, president of Florida's S&M Farm Supply, chooses activities that help him escape from the business world. Pedaling a bike is one. "You have to take your mind off the business when you're riding a bicycle or you'll get run over," he says.

The CEOs report they spend an average of a half hour a day honing their physical condition. That is a big sacrifice of time for people who generally work many hours.

Some executives admit that the press of business keeps them from hitting the fitness trail. When asked for their favorite form of exercise, 3 percent of the CEOs said "working."

SPECIAL REPORT

Economic Development

By Harry Bacas

Using a private fire service saves money for Scottsdale, Ariz., says Mayor Herbert Drinkwater. "We believe the private sector can do things a little better."

The Appeal Of Privatization

Scottsdale, Ariz., in the Valley of the Sun just north of Phoenix, has grown from 2,000 residents in 1951, the year it was incorporated, to more than 120,000 today. It used to be a place of farms and fancy desert resorts. Now it is home to hundreds of high-tech, manufacturing and service businesses that are enthusiastic supporters of the city's privately run fire department.

"Our fire service is the best in the country," says Mayor Herbert R. Drinkwater. "The citizens love the service. I get letters all the time praising the work they do."

Another fast-growing community, Cobb County, Ga., across the Chattahoochee River from Atlanta, has grown so fast in the past 20 years—its population is over 400,000—that it wants to put in a public-transit system. But its system won't be publicly operated; a private company will build and run it.

"We decided to go down that road," says Patrick Salerno, the county manager, "because a private system will give us more flexibility."

Across the country, fire departments, transit systems and other ventures in "privatization" represent an appealing option for communities seeking to maintain or improve their public services in a time of taxpayer revolts and shrinking federal aid.

Privatization offers those communities a way to provide the high level of services needed to support industrial development efforts while avoiding the higher taxes that could deter that development.

When the Industrial Development Research Council asked local public officials recently how they were coping in the wake of tax reform, deficit reduction and the "new federalism," they said their main concern was financing of public services.

To maintain their economic health, communities encourage business development. New business can strengthen their economies, broaden their tax bases and create jobs. Local jurisdictions are trying new revenue-raising schemes—from impact-development fees to selling advertising space on parking meters. States also are scratching for new revenues—more than half the states now operate lotteries.

A city that privatizes functions, says Evansville, Ind., Mayor Frank McDonald II, spurs "an economic benefit by making jobs."

PHOTO: WADE THRALL

Finally, to get the most effective return on these hard-won revenues, many governments are turning to the private sector for more efficient delivery of services once considered to be the function of government exclusively.

"Privatization" is taking hold not only in booming suburbs like Scottsdale and Cobb County but also in large, established cities. Newark, N.J., across the Hudson from New York, is undergoing a renaissance after two decades of urban decay, and it has begun to contract out some municipal activities such as garbage collection, street sweeping and water connections.

"In today's changing economic environment, competition is the word," says Newark Mayor Sharpe James. "The productivity of civil-service workers goes up fast when they see they can be replaced."

In Evansville, Ind., an established smaller city of 136,000 people, across the Ohio River from Kentucky, 11 departments of city and county government now are joint public-private operations. The newest function to go private in Evansville is its $950,000-a-year ambulance service.

Mayor Frank McDonald II explains why: "Where a city has limited resources for capital expenditure, going the privatized route on ambulance service lets us deliver advanced life support throughout the city."

Privatization is not the answer to all municipal problems. It works better in some situations than in others. Opponents, including public-employee unions and some academics, say contracting out can mean a loss of government control, less accountability and a decline in quality of services. Advocates say governments can maintain control and improve quality with proper monitoring, and they add that privatizing can save tax dollars, make better use of resources and raise public-sector productivity.

Whatever the arguments, privatization is growing. The Privatization Council, an industry group, estimates that more than $100 billion a year of government services now are contracted out, compared with $27 billion in 1975.

A survey of local governments was sponsored jointly by the council, Touche Ross & Company and the International City Management Association. It found that nearly 60 percent of local governments contract out some solid-waste collection or disposal, 45 percent contract for building and grounds maintenance, 36 percent for administrative services and 31 percent for data processing.

Evansville Mayor McDonald says the city has been contracting out for over a dozen years, but the recent move to a private ambulance service was done one area at a time until "finally we went all the way. Why did we do it? For one thing, we had trouble keeping manpower. Nobody wanted to do it. These fellows came onto the fire department to fight fires, not run ambulances."

McDonald says people like the quality of the service. He adds: "Any time you go the privatized route, you're doing two things: You're providing a service the city wants to provide, and you

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PHOTO: DON STEVENSON

Donald Dahlin, president and CEO of PCS, Inc., moved his company to Scottsdale and is working on the city's future economic development.

are spurring an economic benefit by making jobs in the community."

Mayor McDonald considers economic development one of his personal responsibilities. He works with the Metropolitan Evansville Development Council to promote new businesses.

His city's attractions for business, he says, include good climate, good transportation, skilled labor, two universities and a philharmonic orchestra, a property-tax-rate growth that has stayed below inflation since 1980, and a crime rate that has decreased 33 percent in the same period.

A recent arrival in Evansville is the Hudson Valley Tree Company, of Newburgh, N.Y., which is opening a factory to make artificial Christmas trees. The company is renovating a large, three-story former refrigerator plant. The firm is expected eventually to employ more than 700 people.

"We've had wonderful support from the mayor, the Chamber of Commerce and the bank in Evansville," says Si Spiegel, president of Hudson Valley.

Spiegel considered other cities. He wanted a central location, somewhere south of Chicago, to serve his growing customer base. He decided on Evansville, he says, because of its geography, its quality of life, its available labor and the financial assistance he was offered.

Spiegel got state training funds, several tax exemptions and \$1.3 million in low-interest loans. He is spending \$1.5 million for machinery and equipment and \$500,000 for leasehold improvements like walls, electrical work and air-conditioning.

"Getting the kind of financial help they offered means we don't have to finance the move out of our growth," says Spiegel.

In Scottsdale, Mayor Herbert Drinkwater sounds a lot like his Evansville counterpart when he talks about his young, fast-growing city and its attrac-

PHOTO: DAVID PERDEW

Manager Robert Crow and Vice President Kazuhiko Esaki of Enplas (U.S.A.), Inc., a Japanese manufacturer that was persuaded to build a plant in Cobb County, Ga.

tions for business. "We have the lowest taxes in the state," he says. "We also have a great quality of life. We have friendly people, open spaces, desert scenery and the mountains nearby."

When he talks to business prospects, Drinkwater says, "quality of life is the bottom line, but low taxes gets their attention."

Scottsdale's private fire service was started in February, 1948, by homeowner Lou Witzeman. Today the company, Rural/Metro Corporation, serves 5 million people in 50 communities across five states. It operates the equivalent of 25 fire departments and 15 ambulance companies and recently diversified into home health care. It has 1,800 employees, and gross revenues have grown from $30,000 the first year to an expected $50 million this year.

Scottsdale could run its own fire department if it wanted to. It owns its six fire stations. But it probably would cost a lot more than the $2.4 million a year it pays Rural/Metro. The key to lower costs, says John Turner, a company official, is higher productivity.

"Most municipalities gear up for the worst possible scenario," he explains. "We use a different concept. We don't have a lot of firemen sitting around doing nothing. We keep enough equipment and men for expected demand, and we have reserves for when they are needed.

"Our reserve fire-support specialists are trained by us but work for the city at other paid jobs. If we need them they are released instantly when we call and then are paid by us as firefighters. We use reserves throughout the system."

Mayor Drinkwater says using the private fire service saves the city 40 percent over what some surrounding communities pay.

"We believe the private sector can do things a little better," he says, "and we try to get into the private sector as much as possible."

Another area of public-private partnership is economic development, he says. The Chamber of Commerce, under a contract with the city and with matching private funds, works to recruit desirable businesses.

"We probably have a larger economic-development budget than any other area in Arizona," says Rich Wetzel, the city's economic-development coordinator. "Our hospitality and tourist industry got us here in the first place, and now we want to diversify our growth."

Examples of the diversity of recent arrivals are a Mayo Clinic medical center serving the Southwest, the national headquarters of Discount Tire Company, Sears Discover Card Services' western operations center and the headquarters of SonicAir, an international air-courier service.

"Our role is small, but this community treats everybody well, however small," says William C. Amidon, president and CEO of Cyclone-Z, which manufactures ore-pulverizing machinery and is moving into construction-waste processing. The company moved to Scottsdale from Dallas.

The public-transit system in Cobb County, Ga., will be privately run, says County Manager Patrick Salerno, "because a private system will give us more flexibility."

PHOTO: ED LALLO

"We liked the quality of life in Scottsdale," Amidon says. "And the Chamber of Commerce gave us a lot of working assistance, setting up meetings with local business leaders and suppliers. They make calls every month or so on individual businesses to see what we need, what we would like."

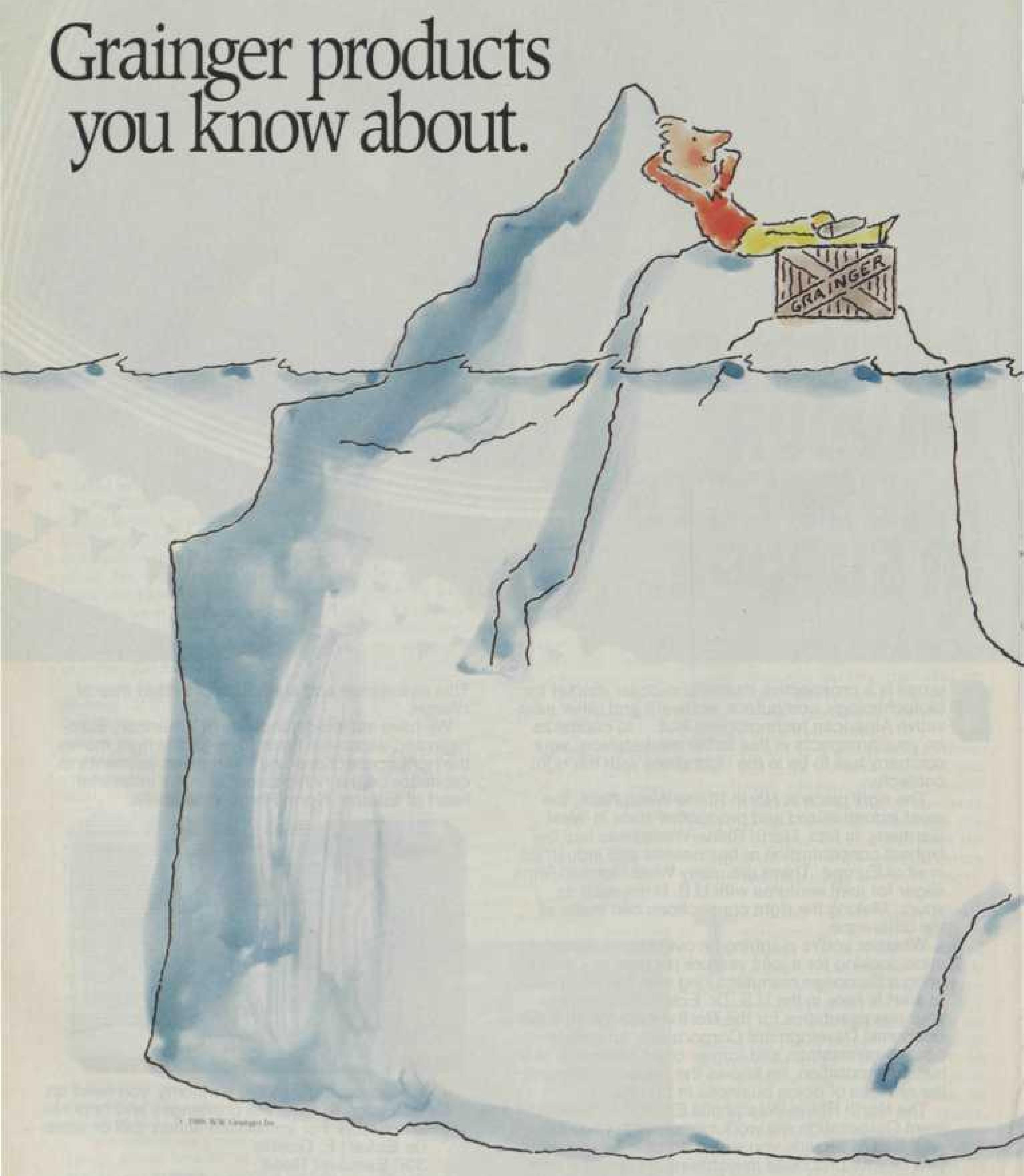
Donald Dahlin, president and CEO of PCS, Inc., which employs 850 in manufacturing and issuing prescription-drug cards and processing pharmaceutical claims for insurance companies, moved the company to Scottsdale from downtown Phoenix several years ago. The company had outgrown its working space; employee parking, provided by the company, was becoming increasingly expensive; and street crime was causing employee concern.

"Scottsdale is a good work environment, and since the move we have had significant productivity increases," says Dahlin. He says the company didn't require financial help from the city for its move. He now serves on the board of the joint public-private venture that is working on future development.

There are similar public-private partnerships at work in Cobb County, where the board of county commissioners recently asked for proposals to create a privately run transit system.

"We've grown so fast that people are demanding public transit," says Patrick Salerno, the county manager. "Cobb had no public transit at all, so we're starting from ground zero. To start we expect to have 37 buses plus spares, and we will continue to expand over the first three years. It will be a turnkey operation with private operator and private employees."

Cobb in the past decade has grown into what Salerno calls a "well balanced mix" of agricultural, residential and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SPECIAL REPORT

The Appeal Of Privatization

business centers, including an increasing number of corporate headquarters. The attractions are "the lowest tax rates in the Metropolitan Atlanta area and an outstanding quality of life."

The Cobb Chamber of Commerce has recruited far and wide to market Cobb's advantages.

For example, a trip to Japan introduced Chamber officials to a company called Enplas, which does precision molding of plastic parts for typewriters and videocassettes. When two officers of the company paid a return visit to the United States, looking for a site for a factory, Chamber Vice President Roger Sund met with them, and the result was a decision to set up Enplas (U.S.A.), Inc., in Cobb.

Sund and the Chamber were helpful in finding a leased building and securing permits and suppliers. The plant started operations with 12 workers. When the number of employees increased to 80, the company decided to build its own plant. Sund found them a location in Smyrna, one of Cobb's smaller towns.

Enplas erected two low buildings on its 8-acre corner lot. It put in a lake, winding paths through the grounds and Japanese cherry trees in front and back. The plant employs 107 people. Its neighbors are condominium apartments. It is the only manufacturing plant in the area.

Robert Crow, the plant manager, says the Chamber and Roger Sund have continued to be helpful. "If I have a problem, I just call Roger," says Crow. "He's a real resource person."

Newark, N.J., has attracted businesses from closer to home. It persuaded so many corporate headquarters to move across the river from its bigger neighbor that New York Mayor Ed Koch threatened to board up the Hudson River tunnels to halt the exodus.

Newark's economic developers had another challenge too. They had to persuade their old, established businesses not to leave. "Our highest priority is to create job opportunities for our people," says Mayor James. "For that reason and to thwart a decrease in our tax base, we can ill afford to let an established business leave."

For several years crime was driving businesses away. "The key to a viable city is that it is a safe place for the people who live here," says Mayor James. "Criminals thought [Newark] was an open city. Letting those people know they were not welcome became a top priority."

Mayor Sharpe James and police officer Foster L. Badgley work to make Newark, N.J., the "Renaissance City" proclaimed on banners displayed downtown.

PHOTO: STEVE ALTMAN

Sidney Cohen is one businessman who almost left. His company, Cohen's Frozen Foods, which makes hors d'oeuvres and French pastries for supermarkets and restaurants, had been at the same location since 1952. His family had operated food stores in Newark for a generation.

Edward and Sidney Cohen of Cohen's Frozen Foods kept their company in Newark, a transportation hub on the rebound as a result of efforts to promote economic development.

PHOTO: STEVE ALTMAN

"It got so bad I was ready to move the business to Pennsylvania," he says. "We looked at some nice places. Newark was going downhill. Nobody wanted to be in Newark. We had to bar the windows. They were broken every week. Cars were being stolen. It was dangerous to walk around here."

But then his area was declared an enterprise zone. Special police were assigned to patrol it; trees were planted; the streets were cleaned. An industrial park was built across the street from Cohen's plant. And Cohen stayed.

"The enterprise zone is an incentive to people," Cohen says now. "It means a lot to us. We get real-estate-tax abatement for several years; we don't pay the state tax on materials we use; there are special benefits if you hire people off welfare; and you get some federal tax relief. And we are in Newark! It's the hub of transportation. You have to go through here to get to New York.

"When this was a blighted area, everybody but us moved out. Now they all want to come back. But the property costs a lot more now.

"Business is excellent. We are in a three-phase, $1 million building expansion. A quarter of our financing is a state loan at 4 percent interest, and the rest is from a bank at the best rates.

"Three or four years ago we had 20 employees. Now we have 140. Sales have increased from $1.5 million then to more than $5 million."

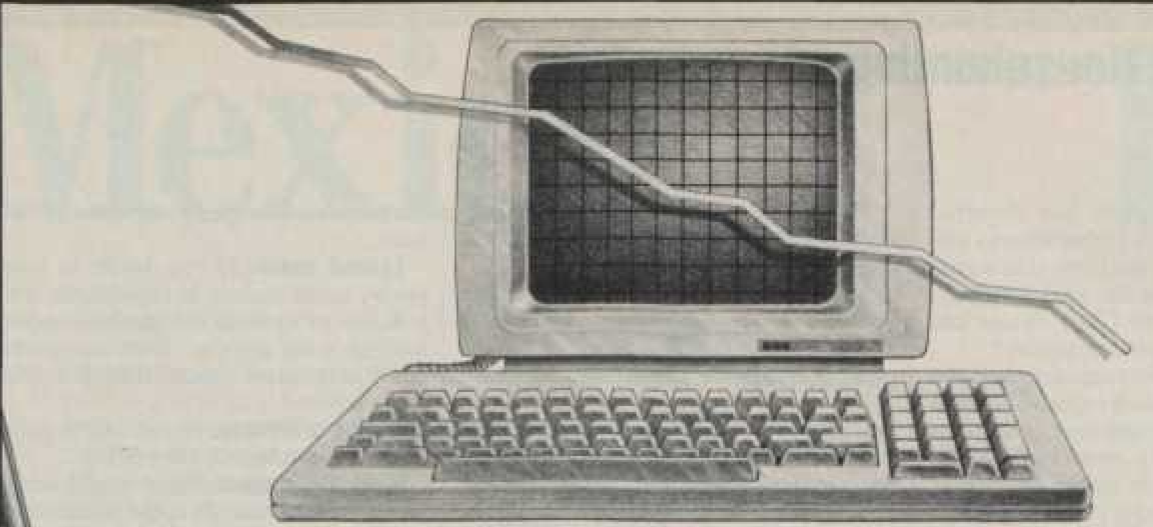
In downtown Newark there are banners on light poles proclaiming "Renaissance City." At the corner of Market and Broad a lighted kiosk demonstrates a constant police presence.

Alvin Zach, city director of engineering, says if the streets are cleaner, private enterprise has a lot to do with it. Private contractors are responsible for one third of the garbage collection and two thirds of the street sweeping.

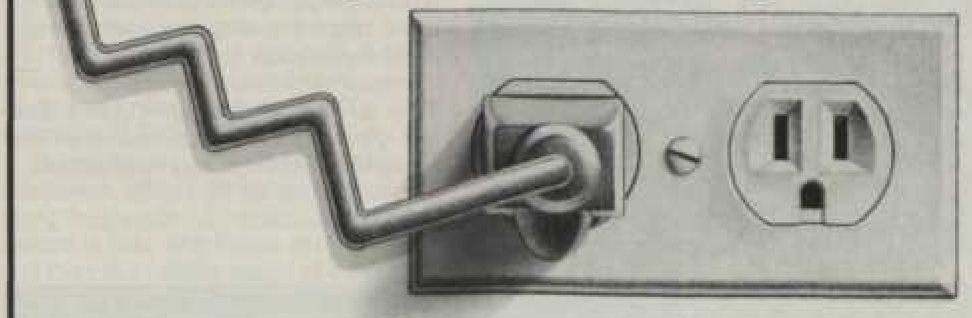
"Contracting makes economic sense for us," says Zach. "Cleanliness is better, and the efficiencies are much greater. If the weather is bad, city employees take off sick. A contractor doesn't have that problem."

In Newark, the result of economic development is a "renaissance." In Cobb County and Scottsdale, growth has meant sophistication and a new maturity. In Evansville, economic planners talk of their "ideal city."

In different ways in different communities, public-private partnerships are helping to achieve common goals. NB



Compared to 1981, computers cost up to 65% less.



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SPECIAL REPORT

Corporate Househunting

By Tom Arnold

The mayor's delegation has departed and you are left with the brochures and the promises about the town that wants to be the new home for your business. How should you, as CEO, choose the site for relocating your company?

First, make sure your firm can be more profitable in the proposed location than it is where you are now. Going to a bigger area doesn't necessarily mean your company will do better.

You need a strategic plan that allows realistic start-up time to stabilize your operations and anticipates the indirect costs of lower initial productivity.

Make sure you have:

- Targeted a location that meets your needs for raw materials, efficient distribution and ample labor.
- Investigated new markets for future growth.
- Decided you are satisfied with access, transportation, housing, living costs, quality of life, climate, recreation, schools, cultural amenities, taxes and recruitment potential.

Now plan the move, remembering that people problems can break the deal.

Staff. Don't risk losing key employees by not making them financially whole when relocating them, or by not making transition as easy as possible.

You can't compete with executive loneliness, or with families that dislike it when a spouse or parent is home only on weekends. And you can't leave a two-job household with only one job at your end of a relocation, so make sure the spouse finds a job.

Assign a banker to handle lines of credit, checking accounts and home-mortgage financing.

The more time-consuming problems your people must cope with, the less time they have to run your relocated business. Put one person in charge of relocation details at each end.

Bricks and mortar. If you decide to build your own facility, make sure the land is cheap enough to offset costly front-end zoning, permit processing, bureaucratic bungling and construction time.

Leased space. If you decide to lease space, make sure it is expandable with a series of options designed to accommodate your growth. Most successful companies grow faster than the CEO expected.

Buying a building. If you buy a building, don't manage it yourself.

Picking an agent. Have a real-estate pro represent you. Find the top three in the market and interview them. Ask for clients with whom you can talk.

Remember your roots. What will you do with your old facility? Don't let the old plant become a cash drain or dead overhead.

Never count on anything being easy, but remember that you can make your move relatively surprise-proof through careful planning.

Tom Arnold, president of Allen Tenant Services, Phoenix, has handled more than 50 corporate relocations.

Mexico

By Jose Antonio Perez and Donald McCarthy

Competitiveness is the name of the game in international trade these days. The move toward a more integrated international economy has forced U.S. producers to adopt new manufacturing strategies to maintain and increase their international price competitiveness.

One solution for U.S. producers has been production sharing, which comes about through partnerships between U.S. firms and developing countries in the internationalization of the production process.

Mexico's production-sharing industry, known as the maquiladoras industry, accounts for 54 percent of total production-sharing imports to the United States, according to a recent study by the U.S. International Trade Commission (ITC).

"Ninety percent of the maquiladora companies, without the option of locating along the Mexico-U.S. border, would have located in Asia, where labor costs are low and there is a reliable supply of materials, or they simply would have ceased doing business," says Rep. Jim Kolbe (R-Ariz.).

Over the years, production sharing has grown enormously in Mexico as the Maquiladora Industry Program, aided by U.S. tariff items 806.30/807, has proved to be a profitable option for many U.S. firms striving to remain competitive in the face of ever-increasing international competition.

At the same time, the maquiladora industry has been one of the few bright spots in a troubled Mexican economy of late, emerging in the past few years as the third-largest foreign-currency earner, after oil and tourism.

The industry last year accounted for almost $1.5 billion in value added—the measure of net foreign-currency earnings for the industry. It is expected that the maquiladora industry will employ about 390,000 Mexicans by the end of 1988.

The primary industries that use maquiladoras, or in-bond plants, are automotive, electronics, textiles, auto-parts, food-processing, electric machinery and equipment, toys and sporting goods, and medical supplies.

According to a study by the Border

Your Chrysler Corporation automobile engine may have been assembled by this worker and others at a company plant established in Mexico as part of the country's maquiladora program, which operates under special customs treatment and foreign-investment regulations.

PHOTO: SERGIO DORANTES—GAMMA LIAISON

Trade Alliance, the maquiladora industry directly or indirectly supports more than 3,500 businesses employing 2.4 million U.S. workers plus thousands of smaller suppliers.

Maquiladoras are assembly plants operating in Mexico under special customs treatment and foreign-investment regulations. They import duty-free into Mexico machinery, equipment, spare parts, raw materials and components for the assembly or manufacture of semifinished products. Those products are exported back to the country of origin or to a third country.

The Mexican maquiladora industry uses about 95 percent U.S. components. The U.S. content of a maquiladora product receives duty-free treatment under 806/807.

Maquiladora growth, particularly along Mexico's northern border, has been explosive. In fact, production sharing has grown more in Mexico than in any of the other countries involved in these types of operations. The number of maquiladora plants operating in Mexico has blossomed from 600 in 1983 to close to 1,300 at the beginning of this year, and expectations are that during 1988 more than 200 new plants will be established in Mexico.

Almost 70 percent of Mexican maquiladora plants are U.S.-owned. The U.S. plants account for 82 percent of total maquiladora employment and 85 percent of value added for re-export.

Approximately 800 U.S. companies—mainly large corporations—operate one or more maquiladora plants. And while some additional large companies are expected to take the "Mexican option," the trend in the industry is toward more small and medium-sized firms.

Interestingly, the large corporations tend to locate in different areas of the country than do the small and medium-sized firms.

In Ciudad Juarez and Matamoros, along the Texas border, the presence of large, well-established industrial parks and the cities' geographical location have attracted many Fortune 500 firms from the eastern part of the United States.

Tijuana, near San Diego, tends to attract smaller, California-based firms, mainly from the electric and electronics industries.

Smaller companies that fit the profile of the potential maquiladora user are those in industries that face global competition but

Jose Antonio Perez is associate director of Maquiladora Services for the American Chamber of Commerce of Mexico. Donald McCarthy is head of Economic Information for that AmCham.

PHOTO: ANTHONY PADILLA

Electron guns in Zenith color-television picture tubes are assembled in a maquiladora plant at Matamoros, Mexico.

lack the financial and volume requirements to set up shop in, for example, the Far East.

Large, small or medium-sized, the types of companies locating in Mexico are those whose products are sold in price-sensitive markets in the United States and that confront stiff import competition.

Also characteristic of maquiladora users are production systems that can be easily divided into distinct tasks and that are at least somewhat labor-intensive.

For such companies, Mexico offers labor costs that are lower than costs in the Far East, as well as a quality labor force characterized by high productivity, a fast improving literacy rate and a family-oriented society, according to an ITC study of the global production-sharing industry.

Proximity to the United States also makes Mexico a profitable place to set up a production-sharing operation. Mexico's other advantages include:

- Rapid and problem-free authorization for the establishment of maquiladora plants.
- The right to sell up to 20 percent of maquiladora production within the Mexican market.
- The freedom to locate a plant anywhere in the country. Most in-bond countries restrict the location of plants to free-trade zones.

Many companies say that Mexico would be part of their production network even without the 806/807 provisions, but the ITC report notes, "The benefits of items 806.30 and 807.00 contribute to the overall incentive to use the Mexican option."

As part of its report, the ITC surveyed companies that make up about 40 percent of firms that use 806/807 tariff provisions. The survey found general agreement among these firms that without 806/807 they would have lost U.S. market shares to foreign producers that do not use U.S. components, and that profitability has improved because of 806/807.

Nonetheless, Rep. Kolbe has noted that the full benefits to the United States of the maquiladora program lie somewhat hidden from the general public. Further adding to the lack of understanding has been the campaign by organized labor in the United States to discredit the maquiladora program.

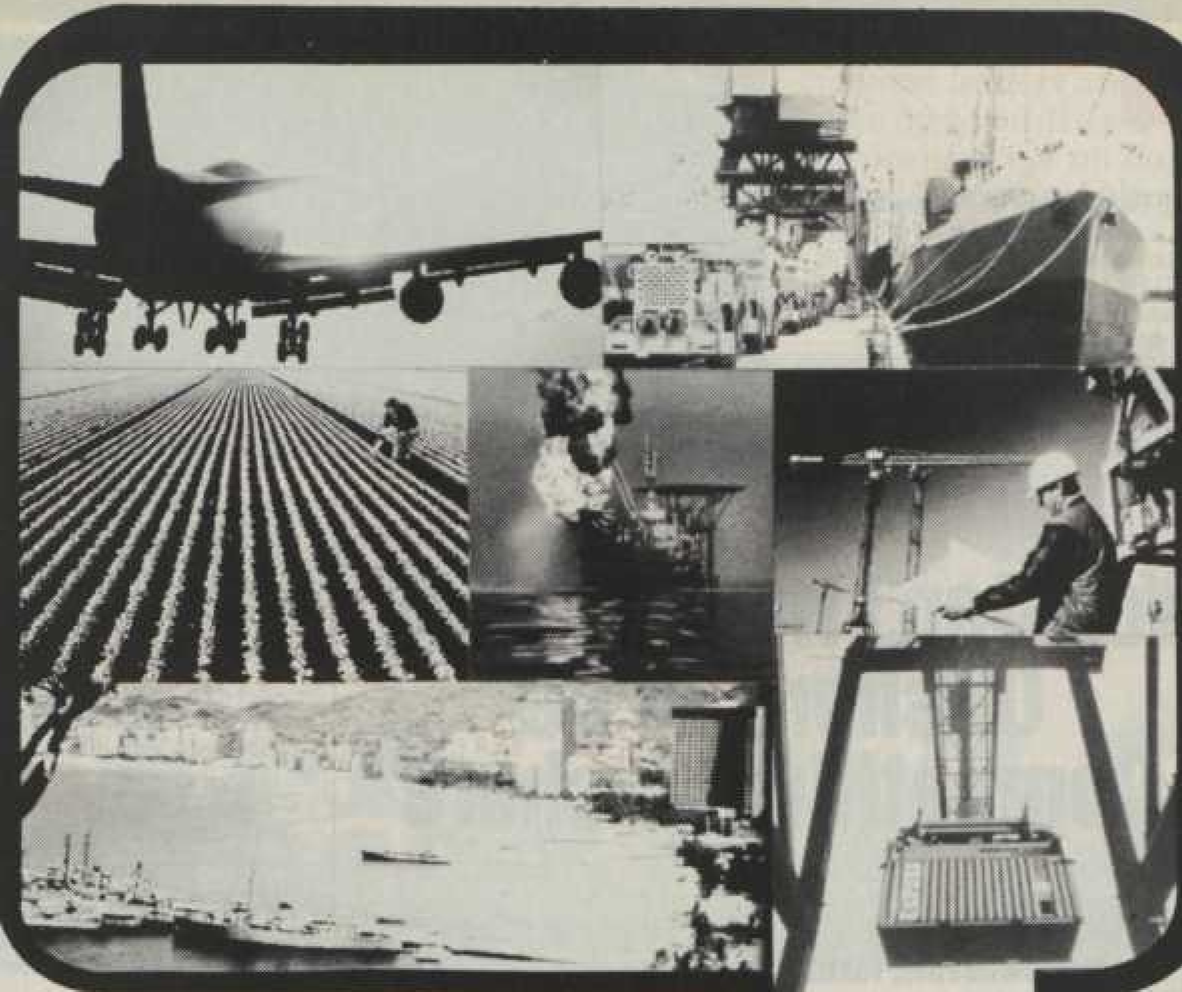
A year ago, the House, at the request of organized labor, held hearings on the effect on U.S. employment of the Mexican maquiladora industry.

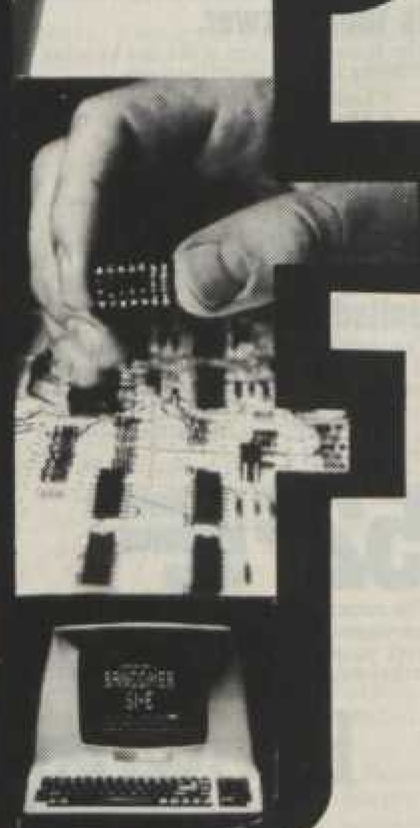
Labor claims that the industry, aided by 806/807 provisions, is taking away American jobs. The ITC report was requested by House members as a way to get an objective view of the issue.

Using broad industry data, the ITC estimated that the production-sharing industry as a whole has roughly a zero net effect on U.S. employment.

Industry leaders challenged that finding, noting that those companies that select the in-bond option do so precisely because their products are in markets that are extremely import-sensitive. The contention of the industry is backed up by the ITC industry survey, which showed that 30 percent of the U.S. employees of companies using production sharing would lose their jobs if 806/807 were repealed.

"We have more faith in the manufacturers' answers to questions presented by the ITC than we do in the part of the report dealing with theoretical employment gains and losses based on price sensitivities of doubtful value applied to data on U.S. production which is only vaguely known,"





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Richard Bolin, director of the Flagstaff Institute, a research center for the production-sharing industry, wrote Rep. Sam Gibbons (D-Fla.). Gibbons is chairman of the Ways and Means Subcommittee on Trade.

The director of the ITC study, Ralph Watkins, allows that "there is a high probability of import penetration on 806/807 products being higher than for broad industry categories."

PHOTO: ZIGY KALUZNY

Ciudad Juarez, in the background, with its well-established industrial parks and proximity to El Paso, Texas, has attracted many large firms from the eastern United States.

But if the industry was a little less than satisfied by the ITC findings, labor had more reason to be disappointed.

After the report was released, the AFL-CIO began attacking the Mexican maquiladora industry from another angle. Saying it would continue trying to have 806/807 repealed, the AFL-CIO stated: "We will work closely with the Confederation of Workers of Mexico (CTM) to assist the CTM in its efforts to organize these [maquiladora] plants."

An AFL-CIO organizer from El Paso, Texas, said in a telephone interview that he has begun working with CTM representatives from Ciudad Juarez.

The organizer said labor wants to organize more plants (currently about 15 percent of maquiladora plants in the city are organized) and obtain better pay and working conditions.

Even with greater union organization, labor-cost savings for U.S. companies using maquiladoras will remain considerable. For example, in Matamoros, on the eastern edge of the border, the city's 65 maquiladora plants are almost 100 percent unionized, yet their average wages are \$1.20 to \$1.30 per hour, just over one third the U.S. minimum wage.

The Mexican government, despite its stretched finances, is clearly dedicated to attracting more maquiladora plants. Projections for 1988 show no slacking off in the trend of U.S. companies moving part of their production to Mexican in-bond plants.

Total plants are expected to increase by more than 15 percent this year. Indeed, it is remarkable that the yearly rate of increase of the industry continues unabated despite its growing base.

As Rep. Kolbe succinctly put it: "I believe the evidence is overwhelming: The maquiladora program helps both the United States and Mexico." NB

MANAGING YOUR BUSINESS

Tough Trading In The Tea Leaves

U.S. and Japanese business leaders air their views by satellite in a videoconference on down-to-earth trade problems.

By Albert G. Holzinger

PHOTO: MILT BITLER

BizNet's fifth annual "A Nation's Business Special: Dialogue on Japan-U.S. Trade" featured Japanese and American business and government representatives. In Tokyo were: Mike Mansfield, U.S. ambassador to Japan; Carl Grant and Richard L. Lesher of the U.S. Chamber of Commerce; Eishiro Saito, chairman, Keidanren; Takuji Matsuzawa, counselor, Fuji Bank; Toshikuni Yahiro, chairman, Matsui and Company, Ltd.; and Akio Morita, chairman and chief executive officer, Sony Corporation.

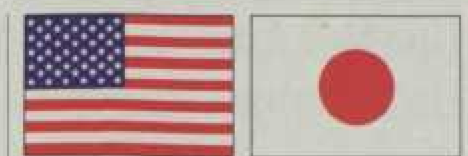
Nations refusing to abide by rules governing international trade will be dealt with severely under legislation Congress will send to President Reagan.

That was the stern yet constructive message that U.S. business leaders delivered to their Japanese counterparts during a recent intercontinental videoconference, "A *Nation's Business* Special: Dialogue on Japan-U.S. Trade."

"If you in Tokyo are reading tea leaves, you should know [the United States] will in fact enact a trade bill this year. It will not be protectionist, but it will be a tough measure," William S. Kanaga, chairman of the advisory board of Arthur Young, a New York-based accounting firm, and vice chairman of the board of the U.S. Chamber of Commerce, said in Washington.

"If certain areas are closed to U.S. industry, there will be a quid pro quo instituted for those industries that have been closed off," he continued.

"Don't think for a minute" that Rep. Richard A. Gephardt's "failure to do well in the South" among Democratic voters on Super Tuesday or in subse-



quent Midwestern presidential primaries will deter Congress or Reagan from approving a bill containing "strong measures" against nations that erect unfair barriers to U.S. exports, said Edward Donley, chairman of the executive committee of Air Products and Chemicals, Inc., of Allentown, Pa.

Mike Mansfield, U.S. ambassador to Japan and a former Senate majority leader, disagreed with those assessments. "I too have no doubt there will be a trade bill, but it will be mitigated considerably in view of results of Super Tuesday," the 85-year-old Mansfield said in Tokyo in his first public appearance following major surgery.

The American Business Network (BizNet), the broadcasting arm of the U.S. Chamber, which also publishes *Nation's Business* magazine, provided the forum for this exchange of views. It was BizNet's fifth annual dialogue between Japanese and American business and government representatives.

The event was moderated by the co-anchors of BizNet's live two-hour weekday morning business-news program, "Nation's Business Today," on the ESPN cable television network. Meryl Comer, Chamber vice president for communications development, led discussions originating in the BizNet studio in Washington. Carl Grant, the Chamber's group vice president for communications, was in the Okura Hotel in Tokyo.

The videoconference was divided into four segments, each scheduled to deal with a key issue in Japan-U.S. trade relations, but the trade-balance issue dominated each portion.

Like Kanaga, Donley and Mansfield, other participants differed sharply over the causes and the likely political impact of continuing U.S. trade deficits with Japan. Last year's deficit was a record $59.8 billion despite the dollar's rapid fall in value against the yen.

Richard L. Lesher, president of the

THE NATION'S BUSINESS

Tough Trading In The Tea Leaves

U.S. businessmen warn that Congress will deal severely with nations not abiding by rules of international trade. They were: James K. Baker, chairman and CEO, Arvin Industries; Edward Donley, chairman of the executive committee, Air Products and Chemicals; and William S. Kanaga, chairman of the advisory board, Arthur Young.

PHOTO: T. MICHAEL KEZA

Chamber, who was in Japan for the videoconference, cited "concrete evidence" that Japan's trade surplus with the United States "was at last moving downward." The U.S. trade deficit with Japan in January, the latest month for which Department of Commerce data were available, was $3.9 billion, down $900 million from a month earlier and the lowest since December, 1986.

Lesher attributed that movement in large part to devaluation of the dollar, declining from more than 250 yen in the spring of 1985 to 180 yen by the spring of 1986, to 150 in 1987 and to less than 130 this year.

But Lesher also credited the government of Japan for its recent adoption of "constructive policies, in an effort to stimulate domestic demand and reduce reliance on exports."

Another conciliatory note was sounded by Eishiro Saito, chairman of the Keidanren, a federation of economic organizations that is the Chamber's counterpart in Japan. Japan must "take serious appraisal of the need to do even more to change its domestic structure to increase demand and open markets to the free flow of commerce," Saito said in Tokyo.

On a similar note, the Japanese ambassador to the United States, Nobuo Matsunaga, said in Washington: "We need to do all we can to help accelerate [reduction of] the trade imbalance."

But a different view was expressed by some conference participants in Japan. Fuji Bank Counselor Takuji Matsuzawa; Matsui and Company, Ltd., Chairman Toshikuni Yahiro; and Sony Corporation Chairman and Chief Executive Officer Akio Morita contended that U.S. business people are largely to blame for the United States' inability to export more goods and services to Japan.

Potential American exporters "must continue efforts to learn more about Japan and the Japanese market" if the bilateral trade deficit is to decline much further, said Morita. To reduce the U.S. trade deficit, he said, American industry should "bring home" manufacturing facilities established abroad when the dollar's value was high.

Mansfield also expressed criticism of U.S. traders: "You have to face the fact that there are countries [other than Japan] that account for more than two thirds of the deficit that America faces in our trade relations with the world."

James K. Baker, chairman and chief executive officer of Arvin Industries, Inc., in Columbus, Ind., proposed a way to preclude future recriminations between the two trading giants.

In Washington, Baker suggested that American and Japanese negotiators produce a comprehensive trade pact similar to the recently signed U.S.-Canada Free Trade Agreement. But Morita dismissed the bilateral approach as "inappropriate."

The videoconference was sponsored by Federal Express and United Airlines. NB

Uplinks And Downlinks

If you still marvel at electronic bank tellers, videocassette recorders and other technological "miracles" of yesteryear, picture this:

The dialogue between Japanese and American business leaders produced recently by the American Business Network of the U.S. Chamber of Commerce linked the BizNet studio in Washington and the Okura Hotel in Tokyo through no fewer than three space satellites and five ground stations.

The event utilized plenty of human resources, too. The broadcast was the culmination of six months of planning and coordination by about 75 broadcast engineers and several producers and directors.

The BizNet feed was sent via microwave to the Washington International Teleport in Brenmar, Va. From there, it was "uplinked" to the domestic Westar 4 satellite and then "downlinked" to a second ground station in San Paulo, Calif.

Then the feed bounced up again, to the Pacific Ocean Relay Intelsat Satellite, and down again, to a ground station in Ibaraki, Japan. From there it was just a short microwave hop to the TV-12 television studio in Tokyo and, finally, to the Okura Hotel.

The signal from Japan traveled a different but equally complicated route.

Does all that boggle your mind? It was just a night at the office for the BizNet staff.

"The videoconference was nothing fancy this year," said Rich Sowala, BizNet's director of engineering. "Just simple stuff."

There is no question that last year's videoconference was more complex: It included Geneva, Switzerland, as well as Washington and Tokyo. The 1987 event utilized five satellites and 10 ground stations, as transmissions crossed the Atlantic and Indian oceans, as well as the Pacific.

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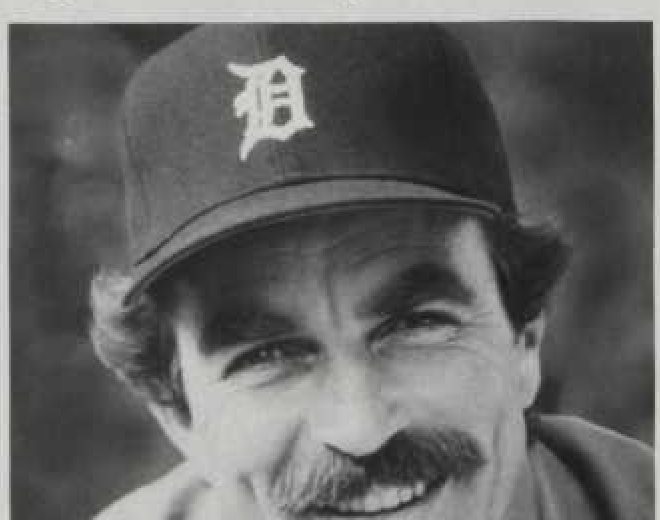
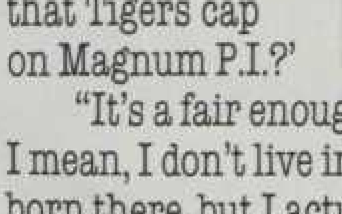


Tom Selleck
Television and screen actor

"Whenever I'm in an interview situation, the inevitable question is, 'Why do you wear that Tigers cap on Magnum P.I.?'

"It's a fair enough question. I mean, I don't live in Detroit. I was born there, but I actually grew up in



Los Angeles. And now I live in Hawaii.

"People have claimed a soft-spot for their native cities before. Maybe that's what this is with me. I don't know. As a kid I visited Detroit during my summer vacations. And that's when, I think, my attachment became something more.

"Now, I'll hear a song on the radio — Bob Seger, Motown, something like that, I'll catch the Tigers on TV, or just run into someone from Detroit and I'm reminded of a place where you can feel free to be yourself. A city where out-of-towners fit right in and feel at home. A place where everyone's welcome.

"These are the things I like about Detroit.

"It has to say something about a city when it has that kind of effect on you.

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LESSONS OF LEADERSHIP

A Rosen By Any Other Name...

... would still be a fabulously successful venture capitalist who brings a sense of humor to high tech.

By Karen Berney

Benjamin M. Rosen's eyes sparkle as he describes how gratifying it was to be the first venture capitalist to back the fastest-growing start-up in American business history, Compaq Computer Corporation.

"You may not believe this," says Rosen, whose early investment in Compaq has made him a millionaire many times over, "but the exhilaration did not come from making money." He reaches for a file and pulls out a drawing of the product that catapulted Compaq to success—a 30-pound portable computer that was compatible with the IBM PC. Seeing that sketch transformed into a product that was made in a factory by a company that would eventually employ thousands of people—that, he says, "was the greatest feeling of all."

At 54, Ben Rosen is the New York-based chairman and general manager of Sevin Rosen Management Company, an $85 million venture-capital fund that he runs with L.J. Sevin, who is based in Dallas and is the cofounder and former chief executive officer of Mostek, Inc.

Rosen is high tech's preeminent deal maker of the '80s. His firm seeded and nurtured two of the personal-computer industry's most impressive phenomena—Compaq, known for passing $1 billion in annual sales in only five years, and Lotus Development Corporation, the maker of the ubiquitous 1-2-3 spreadsheet. Rosen's company also is the godfather to rising stars such as Cypress Semiconductor Corporation, a producer of commodity chips, and Convex Computer Corporation, the top seller of mini-supercomputers, a class of desktop machines designed to blaze through knotty scientific calculations.

For those lucky enough to hold shares in Sevin Rosen since it opened seven years ago, the compounded annual return has been more than 70 percent, outstripping the venture-capital average of 25 percent. Of the 37 companies in which Sevin Rosen has invested over the years, nine are now public and 20 are in various development stages along the path to going public, including such hot prospects as Electronic Arts, Palantir Corporation and Shared Resource Exchange. The other eight companies failed.

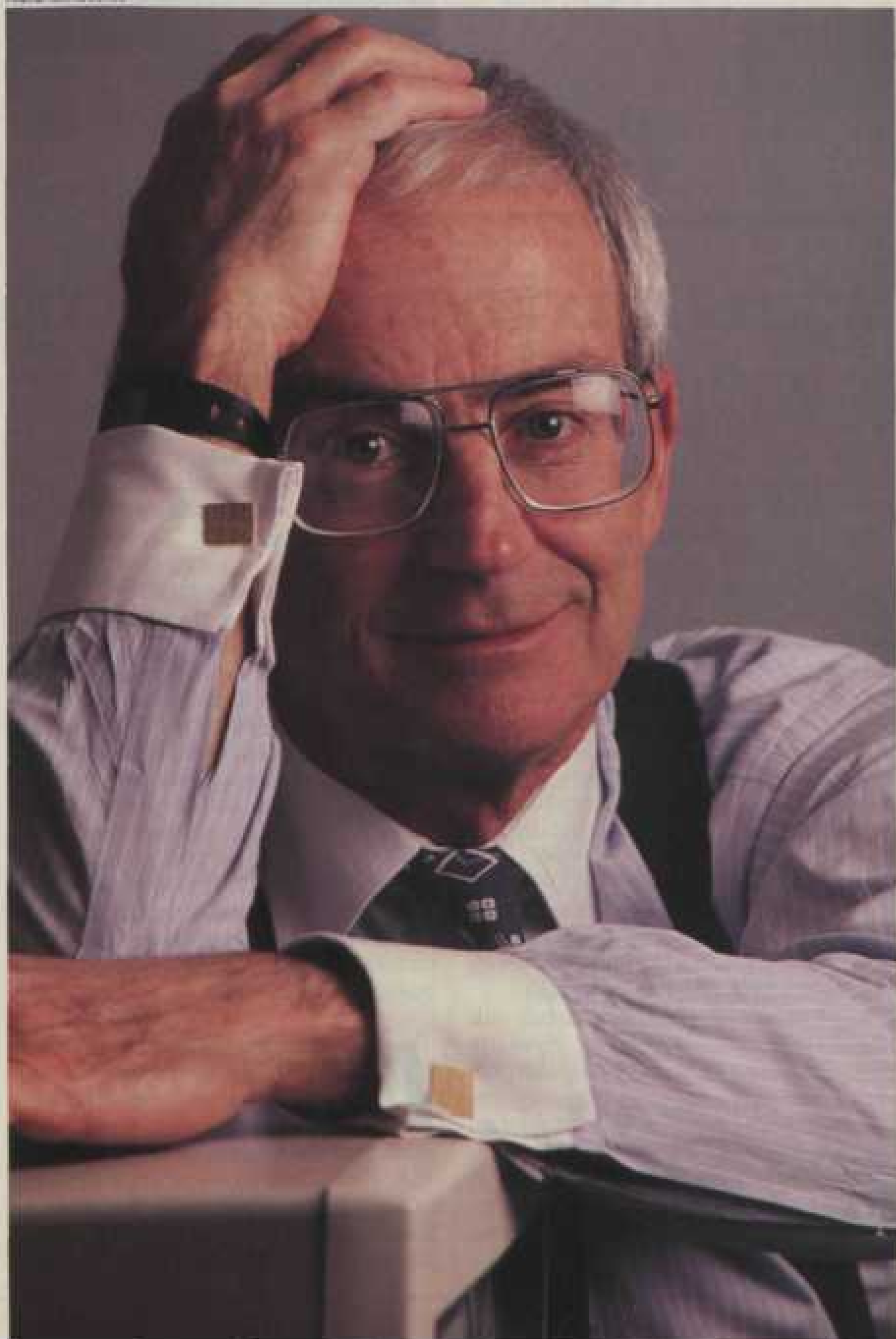
Because of that track record—"it's no less than spectacular," says Jane Morris, editor of *Venture Capital Journal*—most high-tech entrepreneurs seeking venture capital have knocked on Sevin Rosen Management's doors. Only a few have been invited in.

"Every year we get close to 1,000 business proposals and fund about one half of 1 percent of them," Rosen reports. His method has been to look for a product in a market that had the potential for carrying the investment to $20 million to $30 million in annual sales within a few years, so that the company could then be taken public.

Even if you made that cut, Rosen might turn you down unless he saw in

Most entrepreneurs would give their eye teeth to be backed by the venture capitalist who bankrolled Compaq and Lotus. But at age 54, Ben Rosen is looking to start another career.

PHOTO: WAYNE SORCE



A Rosen By Any Other Name . . .

Ever the showman, Rosen displays his juggler vein with a Compaq computer keyboard.

PHOTO: WAYNE SORCE

you the capacity to achieve. "A lot of people think we invest in a product, but that is only part of it," he explains. "In the end we invest in people." Because many founding teams he has backed had no experience running a business, Rosen has had to be convinced they were members of "that rare club of people who will eat, drink and breathe their idea to make it a success."

Those entrepreneurs who have won Rosen's confidence could not hope for a more ardent supporter. T.J. Rodgers, the founder and CEO of Cypress Semiconductor, had been trying to drum up venture capital for four years when he met Rosen in 1983. "First, I couldn't find a company with enough clout to raise the millions you need to set up a semiconductor plant," says Rodgers. "And second, no one believed that a new semiconductor venture could survive at a time when the industry was under attack from Japan."

Rodgers recalls that after a lunch in a restaurant "where the tables were so far apart that you knew this had to be a place for making deals," Rosen turned to him and said, "I think your marketing strategy has shortcomings, but I'm a great fan of T.J. Rodgers." For the next four months, Sevin Rosen bankrolled Rodgers in its Dallas office while he worked with Sevin to refine his marketing plan. In the meantime, Rosen put together a consortium of his and other funds to provide more than $7.2 million for Cypress' launch.

Rosen's knack for recognizing the potential in people and their ideas "sets Ben apart from the rest," says Compaq's president and CEO, Rod Canion.

Using the analogy of his favorite game, baseball, Rosen calls Compaq "one of my home runs," while noting that in his line of business one homer can make up for several outs. Canion had an "extraordinary product that the world wanted and IBM didn't have," Rosen says. But what impressed him more was that Canion and his two partners had quit their jobs at Texas Instruments and were living off their savings. "That showed the kind of all-consuming passion we insist on," Rosen says.

But Rosen sometimes has struck out. His first two investments, Synapse Computers and Osborne Computer, became writeoffs, he says, largely because of Sevin Rosen's lack of control over each company's destiny. "In each case we were second-round investors in established companies. We had no influence. We didn't even have a seat on the board of directors."

After those failures, Sevin Rosen decided to concentrate on start-ups that would welcome the partnership's involvement in marketing (Rosen's specialty) and operations (Sevin's). To insure its participation in a firm it was backing, Sevin Rosen has seldom taken less than a 20 percent stake, and it has usually insisted that either Sevin or Rosen serve as chairman.

In the view of Shelly Floyd, an investment banker who has helped Rosen raise money, it is the team's "roll up the sleeves and get dirty" approach that has made many of its picks winners.

Thanks to Rosen's tireless efforts to explain Compaq to the world, Canion says, Compaq "emerged from the confusion of hundreds of other companies trying to do the same thing we were." Rosen invented the term "IBM-compatible" to distinguish Compaq's highly engineered computer from the slew of IBM PC knock-offs known as clones. Then, to broadcast the message, he followed a publicity pattern he takes with all his investments: He led press conferences and used his contacts in the press to help Compaq get coverage in influential trade publications and national business magazines.

An unassuming man who cracks jokes, likes to display his juggling skills and can't resist a chance to drop a pun, Rosen chalks up his success to serendipity.

A New Orleans-born engineer educated at the California Institute of Technology and Stanford University, Rosen earned his reputation on Wall Street, where he went to work after a four-year stint as an engineer. "I decided I wasn't a great engineer," he says. "I wanted to be great."

As a securities analyst, Rosen was the "first among us to recognize the commercial significance of semiconductors," says Shelly Floyd. "He introduced us to such industry heavyweights as Intel, Fairchild and Mostek."

He is also credited with doing the missionary work that sold the investment community on the viability of personal computers and software. An avid computer user, Rosen organized the first seminars on the microcomputer industry.

His gift for capturing the essence of technology in jargon-free prose that could draw chuckles showed itself in *The Rosen Electronics Letter* (his friends say it should have been called *The World Through Rosen-Colored Glasses*), which he ran as an independent business in the year before Sevin Rosen Management was formed. Here is Rosen commenting on the 1979 merger of Schlumberger and Fairchild:

"On the other hand nobody got cold feet in the Schlumberger/Fairchild Camera merger. This is probably because one of the proposed names for the merged company—Fairberger—was summarily rejected, as was our favorite—Schlumchild. We continue to suggest, as we did a couple of years ago, that Schlumberger consider merging with Yellow Freight Lines and Outboard Marine in order to form the Yellow Schlumbmarine."

Next, Rosen turned to venture capital, joining his contacts and his knowledge of technology. Admirers hope he will now do for biotechnology or the fledgling superconductivity industry what he did for semiconductors and personal computers. Rosen says he and his partner have had their fill of venture-capital investing and are winding down their portfolio.

Rosen says he and Sevin may buy a division of a company or start one of their own, "especially if we run across an entrepreneur who looks like another Mitch Kapor," referring to Lotus Development's founder.

And then, Rosen says gleefully, there is also the possibility of something serendipitous.

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Getting Past The Hassles

Nation's Business *revisits four franchisees who were just getting their starts in 1985. The success rate is .750.*

By Nancy L. Croft

"Are we doing the right thing or am I crazy? At age 47 I should be settled down and content." That's what John Bledsoe, a former terminal manager for a trucking company, wrote in his diary as he went through the process of becoming a Postal Instant Press franchisee in Holyoke, Mass., nearly three years ago.

Today, he says, "I almost feel I've been in this business all my life, and I was in transportation for 26 years. It's going great."

Bledsoe, who bought a PIP franchise with his daughter Dorene Pennell, was one of four people who kept diaries of their experiences of becoming franchisees for "Dear Diary: I'm Now A Franchisee," an article that appeared in the November, 1985, issue of *Nation's Business*.

As the article closed, the four franchisees had brand new businesses and high hopes for the future. Where are they 2½ years later?

Steve Schumacher, who bought a Spring Green lawn-care franchise in Carbondale, Ill., has since bought another Spring Green franchise, specializing in tree and shrub care.

Shirley Porter, who bought a Video Data Services videotaping franchise, turned her first profit last year in Pontiac, Mich. She has raised her minimum price for weddings to $850, up from the $200 she charged when she started, and she has more work than she can handle.

Bledsoe and his daughter are turning their operation into a real family affair. They set up another PIP franchise in a neighboring town, and it is run by Pennell's husband.

But one family affair was not as successful. The two National Video franchises that Franklin Brown purchased—in hopes that his children would take an interest in running a business—never got off the ground. The store that Brown had opened in Wilton, Conn., lasted only a year. The second franchise never materialized.

"It's a real 24-hour job when you have a store. Retailing takes a lot of time and effort," says Brown, and his college-age children lost interest. Competition from independent video-rental stores in neighboring towns also forced Brown to close.

Though he still owns the rights to the two franchises, Brown has not yet decided what he will do with them. "That business still intrigues me," he says, "but I think it has to be in a different location than in our hometown, which is not a big enough market to make a thing like that really sing."

In 1985, John Bledsoe bought a PIP franchise with daughter Dorene Pennell, who was a new mother. Soon, they'll celebrate third birthdays for both babies—PIP and Sheila.

PHOTO: T. MICHAEL KEZA

PHOTO: MICHAEL GORDON

As with any business, the start-up years for a franchise are the most difficult. Our franchisees all agreed that getting a franchise up and running was not as easy as they thought it might be, and the struggle was generally underestimated by the franchisor.

"Buying a franchise is like a marriage," says Bledsoe. "You think you know somebody, until you're married." So far, he says, his and PIP's is a good marriage, but he's working longer hours than he ever expected.

Shirley Porter says she had no idea how difficult it would be to break into the videotaping-services industry. One reason for her struggle was the public's lack of knowledge about videotaping and people's unwillingness to foot the high cost of the service.

Porter honed her skills by doing her first videos for free, and then developed a referral network by offering photographers a $25 commission for recommending her services to engaged couples.

Now, Porter warns new franchisees that it's a lot harder to drum up business than the franchisor lets on. "But I tell them to hang in there," she says. "When they start to get discouraged, I tell them to call franchise affiliates who have been successful to get pumped up and get tips on how to do better."

Support and advice from fellow franchisees is one benefit that buying into a franchise has over going out on your own.

Steve Schumacher, for instance, relied heavily on franchisee and franchisor support when his wife lost her job the summer after he started his Spring Green franchise. Earlier that year he had quit his full-time job—against his franchisor's advice—to concentrate solely on the lawn-care business.

"There were some pretty tense times," he says. "We borrowed money to stay alive. But the franchisor stretched out payments, and suppliers were good about stretching payments." The franchisor also put him in touch with other franchisees who could help service his accounts until he could afford to hire more employees.

Porter also hit some pitfalls in her videotaping business. "I remember how hard that first year and a half was for me, and I got discouraged many times," she says. "I really thought maybe I would just chuck it all." She almost did after one customer threatened to sue her when a new piece of video equipment failed and Porter could not deliver the kind of tape the customer wanted. To make matters worse, the customer, who refused to pay for the tape, also refused to return it to Porter to use as a demo copy. The business lost money

Getting Past The Hassles

and accrued some large legal fees.

"That was probably one of my lowest points because it happened about seven months after we started, and we were really struggling. I just didn't think I really wanted the hassle," she says. "But I got past that, and I want new franchisees to know that they can, too."

The hard knocks, however, have made them better business people. Porter never goes out on a shoot without first checking all her equipment. She has also changed her customer contract to read that she is not responsible for equipment malfunction.

Schumacher has become more savvy about how to survive downturns. Last year, for instance, Carbondale experienced a summer-long drought. New lawn-care accounts dropped, but because he had added the tree- and shrub-care franchise to his operation, he was able to increase sales 50 percent over the previous year. He expects to show his first profit this year.

He also says he plans to be better capitalized when he buys his next franchise. "I could have saved a lot of anxiety if I had had more money tucked in reserve before starting," he says. "We were down to absolutely zero money." But he learned the importance of establishing a good relationship with his banker. "I keep him in touch during the good times, not just the bad times, so that he knows what's happening with my business," Schumacher says.

While Bledsoe says buying a franchise is like entering a marriage, Porter likens it to a parent-child relationship. When the franchise is young, it is very dependent on its parent. But as the franchise becomes more established, it grows more independent of its parent, needs less advice and eventually may strike out on its own.

Our franchisees are at the stage where they are stretching their wings a little, but still need the security and wisdom of their parents.

"I could leave the parent company tomorrow with no ramifications at all," Porter says of her videotaping business. After all, she elected not to take the parent's name, choosing instead the name Angel Video, which enjoys a good reputation in the Pontiac area.

"Someday I may, but at this point, I'm really not ready. I'm just so sure I never would have made it if it hadn't been for Video Data Systems."

John Bledsoe, on the other hand, says he plans to stick with PIP, but will gradually turn the business over to his daughter and son-in-law—and perhaps eventually his 2½-year-old granddaughter. "She's right at home in the business," he says. "Since before she could ever walk she loved to grab hold of the press' lever and feel the vibration as it was operating."

Bledsoe is studying to become a permanent deacon in the Roman Catholic church—something he says he has always wanted to be. When he is ordained in 1991, he plans to ease out of the business.

Yet Bledsoe says he loves his busy schedule. "I'm working harder now than I've ever worked in my life and making less money than I did before I went into the business, but I'm building equity in the company. It's my own," he says.

"If I hit the lottery tomorrow, it wouldn't change my life at all. I'd continue doing what I do now, because it's what I really want to do." NB

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MANAGING YOUR BUSINESS

Direct Line

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Pillow Plight

I produce hand-quilted pillows and need to package them in clear, plastic bags to prevent soiling and fading. Where can I purchase small quantities of plastic bags?
J.S., Blacksburg, Va.

Mike Biff, sales manager for the American Plastics Company, in New York, says that custom-made bags in small quantities could cost about $2 each. But, he says, "You can order polyurethane plastic garment bags from a dry-cleaning-supply company for as little as 5 cents apiece."

Wrapping garment bags around your pillows and sealing the bags would be just as effective as using custom-made bags, Biff says, and "it would save a fortune." Check your local Yellow Pages for companies that sell dry-cleaning supplies.

Card Dealing

I am a full-time engineer and part-time businessman. Last year I introduced in America a new deck of playing cards that proved popular in Asian countries. Because I have limited time for marketing, I am looking for sales representatives. Where can I find them?
S.P., Trenton

Write to or call the Public Relations Department of the Toy Manufacturers of America, 200 Fifth Avenue, New York, N.Y. 10010; (212) 675-1141, and ask for a list of marketing representatives for toy manufacturers.

You might also read the classified-ad section of *Playthings* magazine, in which many sales representatives advertise their services. For a copy, contact the magazine at 51 Madison Avenue, New York, N.Y. 10010; (212) 689-4411.

Exploring Germany

Where can I get information on franchising in Germany, on women who own businesses that export to Germany and statistics on export sales to Germany?
M.D., Beverly Hills, Calif.

For information on franchising opportunities in Germany, contact Andrew Kostecka at the International Trade

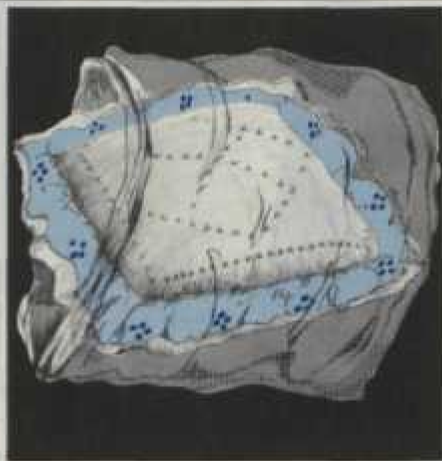

ILLUSTRATION: MICHELE HOLCOMBE

Administration of the U.S. Department of Commerce, Washington, D.C. 20250; (202) 377-0342.

Probably the best source of information on women business owners who may be exporting to Germany is the Office of Women's Business Ownership, Small Business Administration, 1441 L Street, N.W., Washington, D.C. 20416; (202) 653-7954.

The German Desk officer at the Department of Commerce can provide you with statistics on exports to Germany. Call (202) 377-2434.

The German Franchise Association collects and publishes—in German—a quarterly newsletter and market data on franchising in Germany. The association's address is: Deutscher Franchise Verband e.v., Josephspitalstrasse 14, D-8000 Muenchen 2, Federal Republic of Germany.

Hospitable Headhunter

I am interested in forming an executive and temporary-employee search and recruitment company specializing in the hospitality industry. How can I find companies that may be interested in this service?
E.D., West Yarmouth, Mass.

Three organizations that could help you with membership lists are the American Hotel and Motel Association, 1202 New York Avenue, N.W., Washington, D.C. 20005; the Foodservice and Lodging Institute, 1919 Pennsylvania Avenue, N.W., Washington, D.C. 20005; and the International Society of Hotel Association Executives, P.O. Box 1529, Tallahassee, Fla. 32302.

Importing Information

I'm interested in starting an import wholesale business after my retirement. Where may I obtain information to prepare for this endeavor?
W.H., North Augusta, S.C.

Write to the District Director of Customs, Attention: ADD/Commercial Operations, P.O. Box 876, Charleston, S.C. 29402. You will receive the book *Importing Into The United States*, as well as general brochures on importing.

For guidance on importing specific items, contact Robert Leo, director of imports, American Association of Exporters and Importers, 30th floor, 11 W. 42nd Street, New York, N.Y. 10036; (212) 944-2230.

Home, Sweet Office

I'm trying to locate a government pamphlet on how to start and manage a home-based business.
H.D., Watertown, Mass.

A 48-page booklet titled "Starting and Managing a Business From Your Home" is published by the U.S. Small Business Administration and is available for $1.75 from the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402.

Another useful publication is *How to Make Your Home-Based Business Grow*, by Valerie Bohigian. It is available for $8.95 (plus $1.50 for shipping and handling) from New American Library, 120 Woodbine Street, Bergenfield, N.J. 07621. Bohigian, a home-based business writer, offers tips on inexpensive ways to market goods and services from home. NB

How To Ask

Have a business-related question?

Write to: Direct Line, *Nation's Business*, 1615 H Street, N.W., Washington, D.C. 20062. Writers will be identified only by initials and city. Questions may be edited for space. All replies must be given in this column.

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Zap! You're Successful!

Laser guns, once toys for teenagers, have grown up to help police and the military in training.

By Julian Weiss

You've seen them in television ads and probably marveled at the spectacle of teenagers gleefully using them to zap each other. Laser-based weapons simulators are popular—and highly practical, too.

"Police training and military training needn't put the recruits into potential hazards any more," declares Orlando, Fla.-based entrepreneur Bill Schwartz. "With laser devices, training doesn't have to have that element of danger to be effective."

Schwartz was one of the pioneers of laser-based weapons simulators; he has been designing and selling such systems for more than 15 years. He formed his first company, International Laser Systems, in 1968—going into business for himself at the age of 41, after two decades with Martin Marietta Corporation—and sold it in 1983. He started his second company, Schwartz Electro-Optics, in 1984.

When he was director of laser programs for Martin Marietta in Orlando, Schwartz liked the company but was stymied by what he still considers the "inflexible" structures of large firms. He believed there were commercial possibilities in lasers, but Martin Marietta and other big companies were interested only in military applications.

International Laser Systems started by making lasers for the military, and then, in the early '70s, got into laser-based weapons training. After Schwartz sold the company, the new owners licensed production of his training system to his new firm.

Schwartz's system originally involved laser devices that fit on customized revolvers; he has since developed devices that fit on rifles and even submachine guns. His client roster includes the Federal Bureau of Investigation, the Miami police department and the U.S. Department of Energy.

By using laser simulation, law-enforcement and security organizations can keep far more accurate records on shooters' scores.

In Schwartz's devices, when the trigger is pulled a sensor on the gun barrel detects the flash of the blank bullet. A laser then fires a half-inch-wide beam.

Julian Weiss is a free-lance writer in the Washington area.

PHOTOS: T. MICHAEL KEZA

Bill Schwartz (center) demonstrates his laser simulators: The customized gun releases a laser beam; if the beam hits the laser-sensitive vest, beepers and lights signal the hit.

If the laser beam hits a target wearing another Schwartz product—a vest with fiber-optic threads—beepers and flashing lights go off. A combination of one weapon and one vest costs a law-enforcement agency about $3,000.

Schwartz took his new company into a booming field: The market for laser-based weapons training has more than doubled, from $90 million to roughly $200 million, in the four years since Schwartz Electro-Optics opened.

Schwartz's revenues have grown apace, rising from $2 million in 1985 to almost $5 million last year, and his staff has grown to around 65.

Other kinds of laser equipment account for about one third of his sales.

Schwartz is trying to position himself for growth along the nation's high-tech corridors. He now has an office in Boston to identify opportunities in the Strategic Defense Initiative program and to keep in touch with the handful of federal R&D centers where laser-related activity is concentrated. Schwartz Electro-Optics has an SDI contract for laser radar equipment and two contracts with the National Aeronautics and Space Administration for outer-space lasers that will be used to sample the upper atmosphere.

New medical technologies employing lasers are in an "emerging" stage, Schwartz says, and his company has started selling lasers to medical research centers. It is by breaking through into these new markets, he believes, that his company will thrive in the 1990s. NB

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Keep America On Top

Having rebounded from the stock-market plunge last October 19, the U.S. economy is as sound as it has been in years. Inflation and interest rates remain low, more Americans are employed than ever, and the U.S. job-creation rate is the envy of the world. That bullish assessment of the state of the union is the cornerstone of the annual message to members of the U.S. Chamber of Commerce from its top-level leaders.

However, if Congress fails to deal responsibly with continued high budget and trade deficits or enacts a significant number of bills on organized labor's agenda, ever-increasing and ever-improving foreign competitors could leave the United States in their economic wakes, warn Chairman Oliver H. Delchamps, Jr., Vice Chairman William S. Kanaga and President Richard L. Lesher.

America's continued economic preeminence will be ensured, they say, only if business people heed the call of the Chamber's action blueprint for 1987-88: "Let's Keep America on Top."

Under this program, members and staff of the world's largest business federation are lobbying senators, representatives and the Reagan administration in support of actions vital to sustaining the current 66-month stretch of continuous economic growth—the longest uninterrupted growth period in U.S. peacetime history. Among these growth- and competition-enhancing actions are:

- Reducing spending through steps that would include privatization to cut the budget deficit without tax increases.
- Implementing budget-process reforms, including line-item veto power and enhanced rescission (countermanding congressional spending decrees) authority for the President, a balanced-budget constitutional amendment and a two-year budget cycle.
- Enacting a trade law that, while not protectionist, requires the President to deal effectively with nations that place unfair obstacles in the way of goods and services imported from the United States.
- Rejecting the items on organized labor's agenda, including a minimum-wage increase, restrictions on polygraph testing and plant closings, and mandated benefits such as parental leave.
- Continuing efforts to lighten the regulatory burden on the economy.

PHOTO: MURRAY BOGNOVITZ

Bullish and cautious. That's the way the Chamber feels about business' future, say its 1987-88 leaders: Vice Chairman William S. Kanaga, President Richard L. Lesher and Chairman Oliver H. Delchamps, Jr.

Even though the stock market has regained a substantial amount of the ground it lost last fall and is much higher than it was at the beginning of 1987, "some business leaders are still a bit nervous . . . and say we may be headed for recession," says Delchamps. "My response to that is simple and to the point: We can avoid a recession by adopting the sensible policies in Washington called for by the Chamber. Of course, getting sensible policies from our government is not always easy."

This is especially true, adds Delchamps, in a Congress inclined to vote against business interests, like the one elected in 1986.

Chamber legislative activities last year in support of the business federation's "Let's Keep America on Top" program were as numerous and wide-ranging as components of the program itself.

The Small Business Center continued efforts to involve small-business owners in the process of making public policy. Early last year, the center assembled small-business activists in Florida to plan strategy for implementing recommendations of the 1986 White House Conference on Small Business. Currently, the center is planning a "How Washington Works" program targeted at the information needs and interests of small-business owners.

Staff of the Economic Policy Division and Chamber members testified before Congress in support of a balanced-budget

Keep America On Top

President and Mrs. Reagan, Secretary of State George P. Shultz, left, Vice President George Bush, right, and Chairman Delchamps pledge allegiance to the flag at the Chamber's Independence Day 1987 gala in Washington.

PHOTO: T. MICHAEL KEZA

amendment to the Constitution, lower capital-gains tax rates and new legal rights for taxpayers embroiled in disputes with the Internal Revenue Service. Division staff testified before the IRS on issues such as the minimum tax and foreign tax credit and appeared before the President's Commission on Privatization in support of this money-saving concept.

The Economic Policy Division supports lobbying efforts in other issue areas by publishing research, analyses and forecasts. The division participated in a successful Chamber effort to block adoption of a proposal that would have taxed for the first time a portion of benefits received by employees participating in flexible-benefits plans, known as "cafeteria" plans.

The Employee Relations Policy Center played the lead role in combating the anti-business proposals advanced by organized labor. None of the more than a dozen proposals on labor's agenda became law in 1987, but none died either. "The union agenda continues to pose a threat and a challenge to the Chamber," says Lesher. "It could take America into an uncompetitive position almost overnight."

Business' key tests in the labor area will come this year, when election politics will play a greater role in determining senators' and representatives' votes. At issue in 1988 will be a minimum-wage increase, sharp restrictions on employers' use of polygraphs and rights to lay off workers or close plants, increased notification of potential occupational hazards, mandatory health insurance and parental leaves, and a common construction industry practice known as "double-breasting," under which an owner operates separate union and nonunion businesses.

"It is obnoxious, to say the least, that in a time when American business is working overtime to compete with low-cost foreign labor it must defend against laws like these that would surely drive the cost of U.S. labor even higher," says Kanaga.

While U.S. trade deficits were setting records almost monthly last year, pressure was mounting for enactment of legislation to open foreign markets for U.S. goods, services and investments.

Throughout continuing congressional debate of trade legislation, the Chamber, Washington's staunchest advocate of free and fair trade, has sought enactment of a measure that would enhance America's competitiveness in world markets without being protectionist. Such legislation would provide incentives for American businesses to export and would remove domestic obstacles to U.S. exporting while combating unfair practices of its trading partners.

A few of the many provisions sought by the Chamber in the omnibus trade bill before a congressional conference committee would:

- Mandate retaliation against nations that violate trade agreements.
- Authorize the President to negotiate removal of tariff and nontariff barriers to U.S. goods, services and investments during the upcoming round of General Agreement on Tariffs and Trade negotiations.
- Streamline U.S. export controls and clarify the Foreign Corrupt Practices Act.
- Strengthen protection afforded intellectual property such as patents and copyrights.

Some provisions that the Chamber continues to oppose would mandate retaliation against nations that maintain large trade surpluses with the United States, require additional public disclosure of foreign investments here and restrict employers' rights to lay off workers or close plants.

In support of Chamber lobbying efforts, the International Division is determining how the U.S. government can most effectively reduce foreign barriers to U.S. goods, services and investments and encourage American businesses to trade in the global marketplace. And the division has established an Action Center to improve protection of intellectual property.

Division staff and members also are assessing how U.S. and multilateral foreign aid can be restructured to encourage developing nations to adopt free-market solutions to their problems of economic growth, employment and capital formation.

Last year, one Chamber bilateral council was formed to stimulate U.S.-Philippine investment and trade, and another was formed to expand and improve U.S. trade relations with South Korea. A total of 14 such business councils and 58 American Chambers of Commerce abroad present the concerns of U.S. business directly to foreign government and business leaders.

Foreign-trade missions and many world leaders continue to meet with Chamber leaders. Among last year's meetings were those with Prime Minister Rajiv Gandhi of India, President Zia ul-Haq of Pakistan and Prime Minister Turgut Ozal of Turkey.

In the area of food and agriculture, the Chamber worked to defeat a bill that would have reverted to the strict supply-management and price-support programs eliminated by the 1985 farm bill, and it formed a bilateral group with an organization of Japanese agricultural cooperatives. The Chamber has maintained a bilateral relationship with agricultural cooperatives and farmers' organizations in the European Community since 1972.

In community resources, the Chamber helped win passage of a sweeping but economically sound housing bill and published a book and co-sponsored a conference titled *Business and the Entrepreneurial American City.*

In the energy area, the Chamber helped defeat legislation on shutting down nuclear power plants. It continues to support proposals to repeal the so-called windfall-profits tax on crude-oil production, increase leasing of the Outer Continental Shelf and open the Arctic National Wildlife Refuge to energy development.

In the environment area, the Chamber established a council under its environment committee to develop policies in the emerging area of occupational health. The Chamber's environmental staff also worked jointly with congressional staff on Superfund, clean-water and clean-air issues.

Resources Policy Division staff promoted and helped judge the "Take Pride in America" awards program. The program honors public- and private-sector organizations that have contributed to the betterment of the nation's natural resources. The

Chairman Delchamps and Vice Chairman Kanaga thank President Reagan for advancing the policies that allowed entrepreneurs like Ucho Lee, right, and Robert Dunlap to create about 3 million jobs the past five years.

PHOTO: T. MICHAEL KEZA

division also published books to help Chamber members deal with three current business problems. The books are *Risk Management: A Small Business Primer; Drug Abuse in the Workplace: An Employer's Guide;* and *The New Immigration Law: An Employer's Handbook.*

In the important area of liability legislation, the Chamber continued leading industry efforts to gain enactment of a uniform federal liability law, which would replace a patchwork of various state statutes.

In other legislative activities, Chamber staff and members continue working to keep the enforcement of organized-crime-control laws focused on their intended purpose and not on ordinary cases of commercial fraud. The federation continues to lead business' efforts to prevent undue restrictions on government contractors and to promote additional contracting-out of government services. And the Chamber continues to seek reauthorization of the Consumer Product Safety Commission, which would stabilize actions of that rulemaking body and promote strong enforcement of consumer-safety laws.

Overall in 1987, Chamber members' views were presented at 60 congressional hearings and in more than 130 legislative letters. The Congressional Relations Division recorded and evaluated more than 2,500 personal staff contacts with senators, representatives and their key staff.

Legislative activities also included meetings at which high-ranking members of the executive and legislative branches briefed members on important issues and publication of the annual *Congressional Issues* book, which describes more than 100 areas of business-related legislation likely to receive attention this Congress.

The Congressional Relations Division updates issues in this book regularly through *Congressional Action.*

This educational newsletter is sent to the more than 35,000 member companies, state and local chambers of commerce and trade and professional associations that make up the nation's most extensive member-based grass-roots lobbying network. Last year, this network was activated on 14 occasions through "Action Calls" to inundate selected members of Congress with letters and phone calls just prior to key votes.

"The Chamber takes special pride in 1987," says Lesher, "because maintaining an effective voice in a hostile Congress is such a difficult challenge. It's our grass-roots action that separated our legislative program from other, less-effective ones. Chamber members really know how to respond when we issue the call to communicate with members of Congress."

Also vital to business' effectiveness on Capitol Hill are the Chamber's four regional offices in Chicago, Dallas, New York and San Francisco, which work with members throughout the country on legislative and political action.

Federation members' powerful voices in Congress were amplified still further by Chamber participation in about 80 issue-strategy groups. These coalitions coordinate the resources and maximize the impact of a wide range of business organizations. They also prevent opponents from dividing and conquering business interests.

While 1987 was a challenging year for the Chamber, it also was a year of celebration. President Reagan was the federation's guest at three events in the past 12 months, which almost surely is a record

Helping Students

CONSERN
LOANS FOR EDUCATION
U.S. CHAMBER OF COMMERCE

During its 75 years of existence, the U.S. Chamber of Commerce has had few programs that captured the imagination of its members as fully and rapidly as ConSern, the recently introduced program of loans for students.

Under the ConSern program, Chamber members, their families, their employees and their employees' families can obtain low-cost, long-term, unsecured education loans if they have good credit.

"The beauty of the ConSern program is that everyone benefits," says Chamber Chairman Oliver H. Delchamps, Jr. "Chamber members' families and employees receive affordable loans. And members receive a truly unique benefit to help them attract and keep high-quality employees."

The loans may be used for any educational expenses, including tuition, supplies, room and board, and transportation.

The cost to members is as low as $25, depending on the size of their businesses. Members advertise the loan program to their employees as a benefit but do no related paperwork and assume no liability for repayment.

Interested employees contact ConSern directly, and ConSern processes their applications for a one-time fee of $45. Applicants must be accepted or enrolled in an accredited college or university, or an accredited primary, secondary or trade school. Those accepted pay a one-time discount of 3.5 percent—used by ConSern for administration and insurance expenses—on loans, which can be as high as $25,000 a year and $100,000 in total for each student.

Monthly interest is charged at the three-month commercial paper rate plus 3.6 percent. Lately that figure has totaled about 10 percent. Recipients may pay only interest while they are college- or university-enrolled; when they graduate, the balance is repayable in up to 15 years.

The nonprofit organization that administers the ConSern program for a consortium of universities and financial institutions has received thousands of requests for information on the program since its availability was announced to members in *Nation's Business.*

Keep America On Top

Taxpayers' rights advocate Sen. David Pryor (D-Ark.) consults with Vice Chairman Kanaga; Sen. Orrin G. Hatch (R-Utah) seeks support of the Chamber's Labor Relations Council; Commerce Secretary C. William Verity, Jr., appears on "Ask Washington."

PHOTOS: T. MICHAEL KEZA

for any private-sector organization.

Reagan's first appearance was in the spring, in honor of the Chamber's 75th anniversary. The organization was formed, Reagan noted, at the request of President William Howard Taft, who called a convention of business leaders when he grew tired of getting conflicting advice from the business community. The Chamber, said Reagan, is still an effective, unified voice of American businesses, state and local chambers of commerce, and trade and professional associations.

In July the President appeared at another Chamber celebration, the Independence Day gala at the Jefferson Memorial in Washington. There, Reagan set forth a 10-point "Economic Bill of Rights," with most of its points restating Chamber economic policies. But the most joyous celebration of all occurred in the fall, when Reagan and a crowd of entrepreneurs celebrated the setting of an economic-recovery endurance record.

This event also featured the premiere of a film profiling eight small-business people typical of those who had created 2.8 million new jobs—nearly half professional or managerial—during the then-60-month recovery. All had been spotlighted in the "Making It" series in *Nation's Business*, or on the "Making It" feature of "Nation's Business Today," the Chamber's weekday morning live television news program on the ESPN cable network.

The Chamber also celebrated its own continuing economic success. "Last year was a very good one financially, with an operating surplus," says Lesher.

And 1987 was a good year for the Spirit of Enterprise Campaign, the Chamber's first effort since its founding in 1912 to raise capital funds.

The member committee conducting the campaign has raised 88 percent of its goal of $35 million, reports Chairman Raymond F. Farley, and it expects to reach the 95 percent mark this year and 100 percent in 1989.

Plans are being made for a victory celebration at the Chamber's 1989 annual meeting. The event will honor the companies, representing all levels of Chamber membership, that contributed to the campaign.

Contributions frequently are in the form of equipment and services. Last year, for example, the Chamber received air-conditioning equipment for its computer room and continued access to the LEXIS/NEXIS online data-retrieval system, which provides up-to-the-minute facts to Chamber issue and communications experts.

More visibly, contributions allowed construction of a state-of-the-art electronic conference center on the Chamber's first floor. The remainder of the first floor is under renovation and, when completed, will provide meeting facilities for members who visit Washington.

The recently opened conference center already has been the setting for some of the 235 sessions conducted by the Briefing Center the last year for over 2,700 executives of member associations, state and local chambers, and firms. These sessions improve understanding of legislation and federation activities and resources.

The Chamber also seeks to communicate with those business people unable to visit Washington.

The Office of Corporate Relations conducts one-on-one meetings with corporate members in their offices to get their input on policies and further their involvement in Chamber programs.

A year ago the Chamber established a Services Industries Council. This policy group communicates the needs and goals of the expanding services sector to the Chamber's Board of Directors. Last year it launched a monthly newsletter, *Services Watch*, to support its activities.

The Chamber communicates with owners and managers of all types of businesses by publishing *Nation's Business*, America's largest-circulation business magazine. It also communicates with members through *The Business Advocate*, an issue-oriented newspaper.

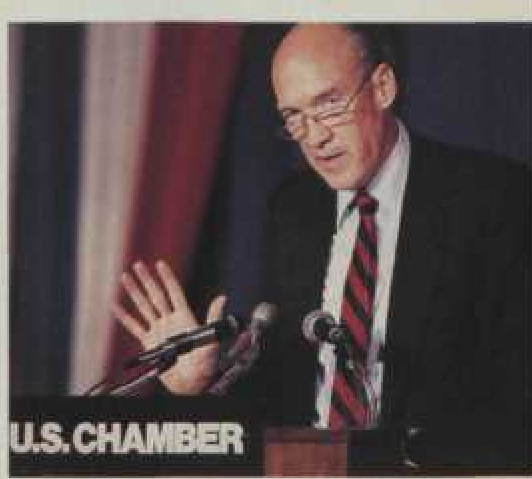
The Chamber's wide-ranging broadcast activities include "Nation's Business Today" on the ESPN cable-television network and "It's Your Business," a weekend public-policy debate program. (See box "Coming Of Age.")

The Chamber stepped up its public-outreach program last year by creating Media Relations and Communications Development departments. These operations will increase the visibility of the Chamber and support its lobbying activities through short- and long-term programs for those in the news media and in public relations.

The Media Relations Department conducted a conference in Washington for business editors, featuring key business, government and Chamber speakers. It also arranged for Lesher to address reporters at the National Press Club, an event broadcast in its entirety on national radio and television.

The Communications Development Department has created a two-part video series on the importance of legislative and political involvement for distribution among members.

Key administration and congressional officials appearing at Chamber events in Washington included House Minority Leader Robert H. Michel (R-Ill.), Education Secretary William J. Bennett and Senate Minority Whip Alan K. Simpson (R-Wyo.).



PHOTOS: T. MICHAEL KEZA

It also has worked with the Development Group in launching and promoting the new ConSern student-loan program. (See box "Helping Students.")

Communications Development also has been charged with supporting the "Enterprise Is . . . America" program, an economics-education program now integrated into the curriculum of thousands of secondary schools.

To "Keep America on Top," business people must become more active in politics, beginning with the November presidential and congressional elections, says Delchamps. The Chamber and its members cannot be fully effective in the process of making public policy if they must continually fight hostile initiatives in Congress such as those on labor's agenda.

"If we are to keep our economy on an even keel, foster further growth and avoid a recession, it is absolutely essential that business people get into politics up to their elbows now," Delchamps says.

The Chamber's own political action committee, the National Chamber Alliance for Politics, has endorsed candidates in 742 U.S. House and Senate races since its inception in 1977. Seventy-three percent of those candidates won. NB

Taking No Vacation

Last summer, while members of Congress were vacationing, business' Minimum Wage Coalition to Save Jobs was at work, gearing up feverishly for an anticipated battle over a proposal to increase the pay floor 39 percent. To document its claim that a minimum-wage increase of that magnitude would cost countless American jobs, the coalition turned to the National Chamber Foundation, one of several organizations affiliated with the U.S. Chamber of Commerce.

The NCF commissioned research that concluded the pay hike before Congress would swell the jobless rolls in all 50 states a total of 2 million. Armed with this finding, Coalition members have kept the wage-increase proposal at bay.

This was just one of many accomplishments last year of the foundation and the other activist Chamber affiliates: the National Chamber Litigation Center and the Center for International Private Enterprise.

The NCF inaugurated the Vernon K. Krieble International Economic Growth Center as an advocate for pro-growth policies and began a series of Partnership for Free Enterprise dinners as forums for discussion of capitalism. In addition, under its 10-year-old mandate to influence public policy through analysis and clarification of complex issues, the foundation studied the unemployment-compensation system, economic portions of the U.S. Constitution and trends in employee benefits. Study projects this year include determining the economic impact of frivolous litigation and exploring the corporate tax burden.

The foundation publishes the quarterly *Journal of Economic Growth* in three languages to promote free-market solutions to economic problems worldwide.

The Center for Leadership Development, the foundation's education division, conducted training sessions for staff of volunteer organizations at seven U.S. universities and educational institutions in Costa Rica and Pakistan. The center also conducted a four-day briefing for members of the American Chamber of Commerce in Switzerland on the subject of how Washington works.

The NCLC participated in 30 cases, bringing to more than 200 the number of times it has appeared in court during the past decade to protect business' rights.

Last year's victories established that:

- Citizens groups can't sue companies now for old violations of the Clean Water Act.
- Companies are entitled to jury trials if they are assessed civil penalties under the Clean Water Act.
- State agencies need specific statutory authority to assess punitive damages against businesses.
- Federal laws governing working conditions preempt similar state criminal laws.

CIPE, formed four years ago under congressional mandate as the business arm of the National Endowment for Democracy, funded 20 pro-business programs in 15 developing nations.

It also helped bring more than 250 business and government representatives from 35 developing countries to Washington for the first International Conference on the Informal Sector. The conference advocated reduction of red tape in Third World nations to allow underground entrepreneurs to join the legal economy. These informal business people are responsible for 60 percent of the gross national product of some nations.

This year CIPE and the United States Information Agency will conduct teleconferences on market economics in Africa, Asia, Latin America and Western Europe.

Coming Of Age

PHOTO: MANUELLO PAGANELLI

PHOTO: SUSAN V. STEINKAMP

British journalist Julia Sommerville reported on the 1987 Reagan-Gorbachev summit from the Chamber roof. So did ABC News anchor Peter Jennings, at right in inset with the President's chief of staff, Howard H. Baker, Jr.

In 1975, when Richard L. Lesher became president of the U.S. Chamber of Commerce, most regarded the roles of the organization as issue research and lobbying. While Lesher acknowledged that view—under him, in fact, the Chamber's corps of issue managers and lobbyists has grown stronger than ever—he also saw the Chamber as a national leader in communicating to business and to the public.

"Last year communications finally came fully of age," says Lesher. "Member, public and advertising support for our television and [print operations] were the highest ever. The hallmark of this communications effort is that the power structure of the world comes to our doors. Sixty-six senators and 130 representatives appeared on BizNet [the Chamber's television operation] in 1987, split almost evenly between Republicans and Democrats."

In a year notable in the industry for failures of business-news programs, "Nation's Business Today" celebrated its fifth anniversary by posting substantial advertising and audience gains. Advertising was up nearly $3 million from its start-up level in 1983. And more business owners and managers watched the program than its cable and broadcast competitors in the 6:30-8:30 a.m. Eastern time slot, according to a survey by the A.C. Nielsen Company.

"Nation's Business Today" is broadcast live weekdays on ESPN, the nation's largest cable-television network, available in more than 45 million homes. The program is co-anchored by Carl Grant, the Chamber's group vice president for communications, and Meryl Comer, the organization's recently named vice president for communications development.

Small-business coverage, always an important feature of the program, was increased to four reports a day in recognition of small business as the fastest growing, most vibrant sector of the U.S. economy. This added coverage was supported by AT&T, Citicorp and The Travelers Companies. Also, USAir began showing highlights of the program on flights to and from major business hubs.

BizNet's other live, weekday-morning program, "Ask Washington," also celebrated its fifth anniversary. The nationally syndicated viewer call-in show, which airs on about 30 broadcast stations and The Learning Channel cable network, is a powerful magnet for Washington's power elite—government officials and legislators alike.

PHOTO: CHRISTOPHER KERN

Nation's Business *celebrated its 75th anniversary in 1987;* The Business Advocate *published its first separate small- and large-business editions.*

Last year also was good for the program that marked the Chamber's first step into television almost nine years ago, "It's Your Business." The weekly program chalked up its 400th broadcast early in the year. And later, the nationally syndicated program began appearing on WWOR in New York and KNBC in Los Angeles, America's largest television markets. Now, about 80 percent of television households can watch business and government leaders debate newsworthy public-policy issues.

The program also became available to more than 4 million people in 11 European nations early in 1988 when it joined the United States Information Agency's Worldnet system.

Regularly scheduled programing makes up only part of BizNet's activities. For example, the telecommunications-production service this year staged the Chamber's fifth annual live videoconference on Japanese-U.S. trade, which allowed top-level business and government leaders in Washington and Tokyo to discuss crucial trade-related issues facing them.

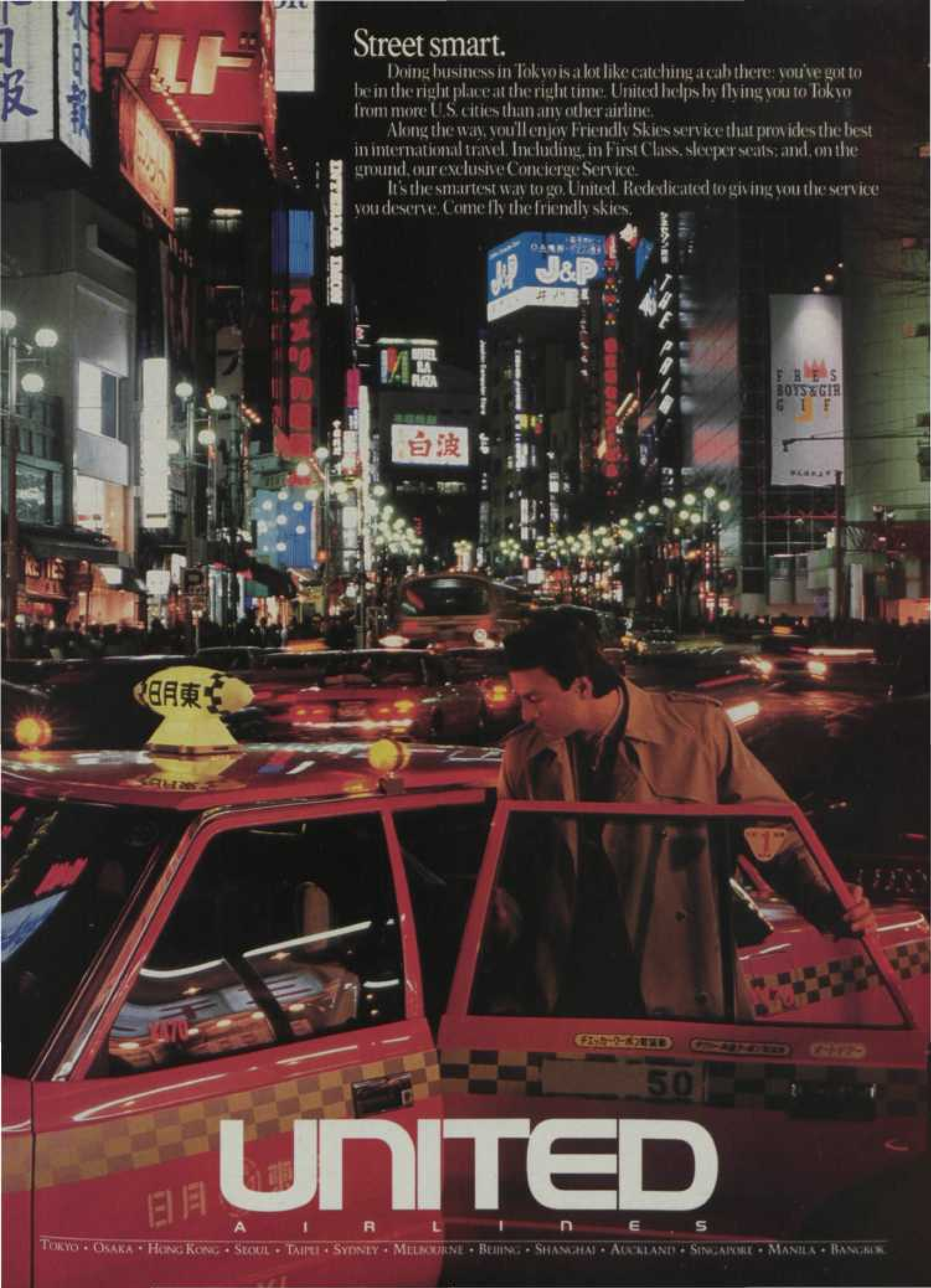
To enhance BizNet's in-house and commercial-production capabilities, a second state-of-the-art studio was opened, and a Ku-band satellite receiving dish was installed on the roof of the Chamber's headquarters building.

Like the Chamber itself, *Nation's Business*, its monthly magazine, also celebrated its 75th anniversary in 1987.

The nation's largest-circulation business magazine, with more than 850,000 subscribers, highlighted this achievement with a series of historical features leading to a gala anniversary issue. That issue reflected the history of business in America, examined the role of business today and speculated on what will come tomorrow for the nation's entrepreneurs.

Throughout the year *Nation's Business* coverage included guidance on management problems, profiles of successful entrepreneurs, reporting on Washington legislative and regulatory issues that affect business, and advice on personal affairs such as health, finances and taxes.

The Chamber's other major periodical, *The Business Advocate*, also scored a major advance. The 215,000-circulation, issue-oriented monthly tabloid newspaper moved to separate large- and small-business editions to serve readers better.


Street smart.
Doing business in Tokyo is a lot like catching a cab there: you've got to be in the right place at the right time. United helps by flying you to Tokyo from more U.S. cities than any other airline.
Along the way, you'll enjoy Friendly Skies service that provides the best in international travel. Including, in First Class, sleeper seats; and, on the ground, our exclusive Concierge Service.
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TURBO
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MITSUBISHI FUSO
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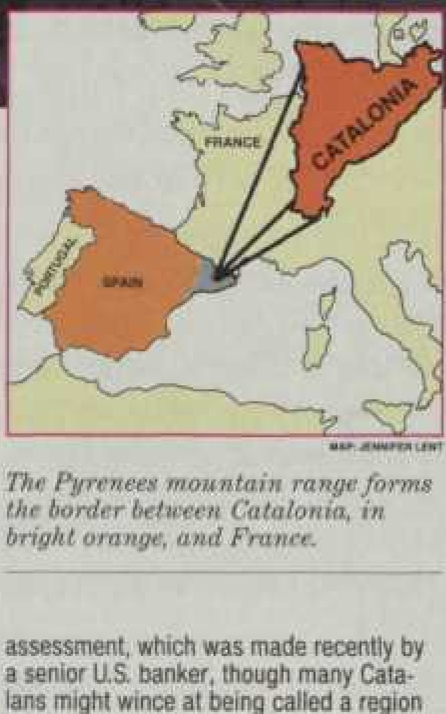
Catalonia

PHOTO: STEPHANIE MAZE—WOODFIN CAMP



MAP: JENNIFER LENT

The Pyrenees mountain range forms the border between Catalonia, in bright orange, and France.

Catalonia's capital, Barcelona, will become a household name over the next four years thanks to its role as host of the 1992 Olympic Games.

Telecommunications, construction, tourism and services are all areas set to boom in the coming years as Barcelona gears up for the games.

But Barcelona already can lay claim to more than its fair share of gold medals in the day-to-day competition in international business.

In recent years, Catalonia has compiled a strong track record in two glamorous events: attracting foreign investment and developing a high-technology industry.

Today, just two years after joining the European Economic Community, Spain is in the midst of an economic revolution. Most of the barriers put up by a previously highly protectionist regime are being pulled down.

Spain's industrial-growth rate of 4.5 percent a year is double the European average. Foreign investors are surging into the country.

But this industrial growth has not been even. Some regions have been more successful than others in attracting foreign investment. One of the most successful has been Catalonia.

In fact, few regions are more representative of the new spirit of enterprise currently sweeping through Spain than Catalonia. No Catalan would disagree with that assessment, which was made recently by a senior U.S. banker, though many Catalans might wince at being called a region of Spain.

Catalans, a fiercely independent people, consider themselves residents of a nation in itself.

Indeed, this year is the 1,000th anniversary of the Declaration of Independence issued by Catalan counts to the French throne, to which the counts had previously sworn allegiance.

Today, Catalonia is an autonomous region of Spain with an independent government that has full responsibility for industrial policy.

Although it occupies only 6 percent of the Spanish mainland and has only 18 percent of the country's population, Catalonia now accounts for 25 percent of Spain's industrial production. In recent years, the government of Catalonia, or Generalitat de Catalunya, and the city officials of Barcelona have embarked on a highly successful policy of attracting new investors to their area.

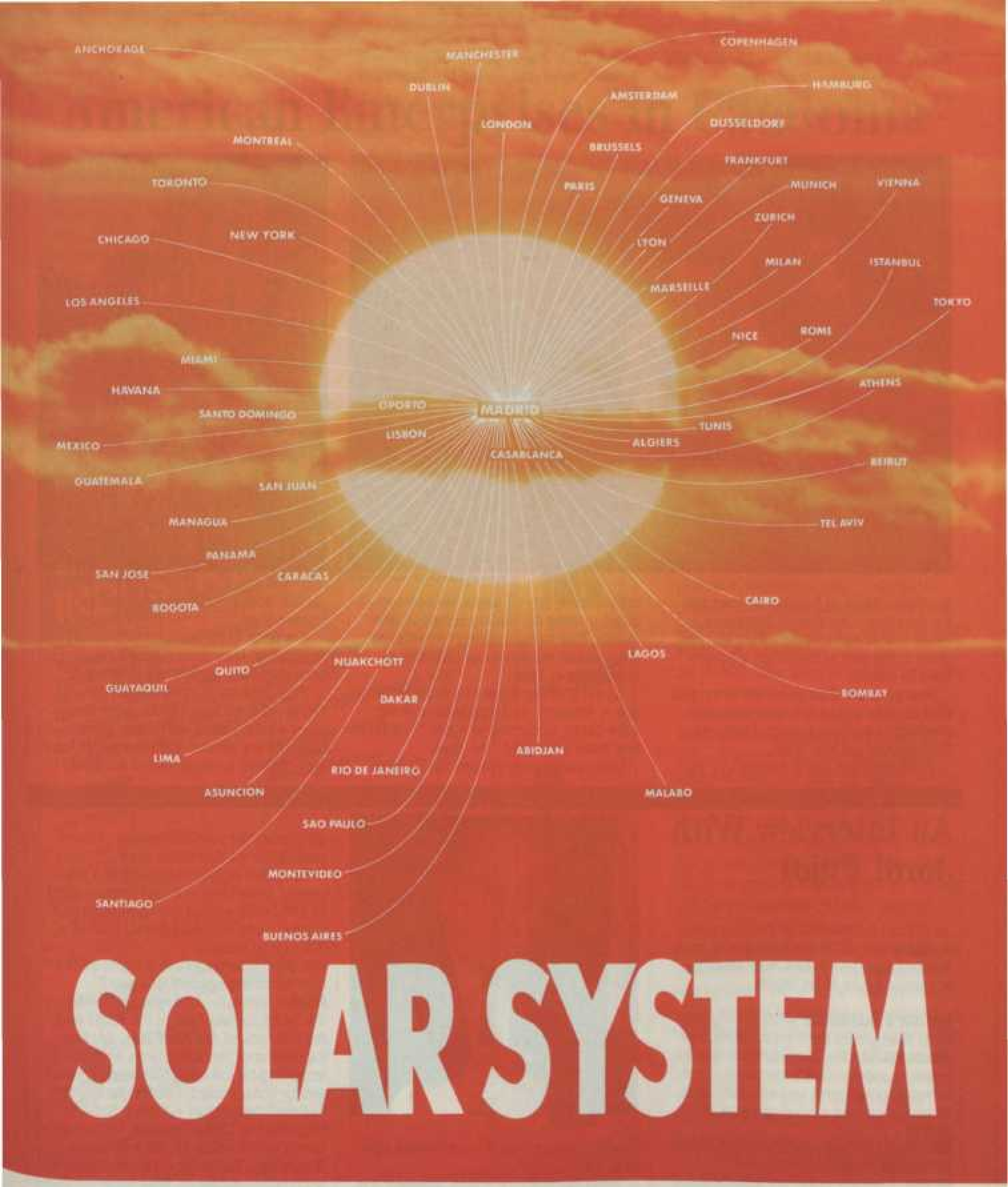
"Our policy has been one of spreading the advantages that Catalonia presents as an industrial location and the existing economic mechanisms and incentives it offers," says Jordi Pujol, president of the Generalitat.

"And we've been successful," he says. "Foreign investment in Catalonia in 1987 totaled 186 billion pesetas and represented 48 percent of Spain's total. Foreign investment in Catalonia's Urgent Reindustrialization Zones (ZURs) was close to 30 billion pesetas, 44 percent of Spain's total."

Recent foreign investors in Catalonia include Nissan, Panasonic, Du Pont, ICI and Hewlett-Packard. Last year, according to official Japanese figures, over 85 percent of Japanese investment in Spain was in Catalonia.

Barcelona is now a thriving industrial city, and if you're trying to avoid rush-hour traffic you would do better by going to Madrid than to Barcelona.

One small but significant indicator of the fact that Catalonia is the industrial and



When you're travelling it's reassuring to know you can rely on a perfectly coordinated flight schedule. Carefully devised to allow for time differences at each destination, with no-wait connections, at convenient times. Ensuring you can make the most of your day.

Only a truly international airline can make this possible. And if that airline can also offer you the warmth and hospitality of the Spanish sun, you should have no doubts as to which way to fly.

IBERIA

AIRLINES OF SPAIN

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Below, a woman harvests Catalonian grapes, which are made into extraordinary sparkling and still table wines. At the festival of San Sadurní di Noya, young men form a human pyramid called the Xiquet de Valf.

PHOTO: STEPHANIE MAZE—WOODFIN CAMP

PHOTO: STEPHANIE MAZE—WOODFIN CAMP

business capital of Spain is the fact that the American Chamber of Commerce in Spain has its headquarters here and not close to the seat of the nation's government in Madrid.

Few people in Barcelona are more qualified to comment on the new economic revolution sweeping through Catalonia than 80-year-old Max Klein.

Klein has been doing business in Barcelona for nearly 65 years. He has combined running his trading company with serving four terms, totaling 18 years, as president of the American Chamber of Commerce in Spain.

Spain is in the midst of a dramatic economic recovery, and Catalonia is doing even better, according to Klein. "The future looks very good," he says.

Klein particularly praises the Catalan people, who, he says, are reliable and hardworking.

It is good to do business with Catalans, Klein adds. They drive a hard bargain, but once they have agreed, they stick to it.

Pilar Jimenez, a psychologist who recently returned from London after nine years working there with Klein, agrees. Catalans are serious and responsible, and they possess a strong vein of conserva-

An Interview With Jordi Pujol

Jordi Pujol is president of the Generalitat de Catalunya, Catalonia's governing body. *Nation's Business* asked Pujol about the economic future of his region.

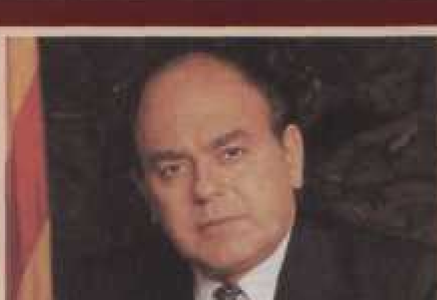
NATION'S BUSINESS: What are the principal strengths of the Catalan economy?

JORDI PUJOL: The diversification of our industry, openness of our economy, and entrepreneurial spirit and adaptability to technological and market changes of our people.

NB: What are Catalonia's principal assets for foreign investors?

PUJOL: They are many: our industrial network, position in relation to Europe and membership in the European Economic Community, communications infrastructure, level of education and industrial culture, which is the fruit of a long tradition.

NB: What has been the effect of entry into the EEC on the Catalan economy?



PUJOL: Catalan industry assimilates openness well.

This case is no exception, although it is true that imports have registered greater growth levels than exports since our integration.

Through entry in the EEC, we have gained access to raw materials at prices ever nearer to international ones, which stimulates producers of raw materials here and favors the competitiveness of those manufacturers that utilize them.

Entry has signaled initiation of a process of integration in a real single market by 1992, with all that this represents, including, naturally, a consumer market of 320 million people.

NB: Does Catalonia have a future as the high-technology capital of Spain?

PUJOL: Naturally. An expression of this is the Technological Area of the Valles and the Economical Activities park. Another expression of this is the large amount of technological infrastructure being created and/or consolidated: General Testing and Research Laboratory (LGAIN); National Microelectric Center, Applied Technology Center at the Valles, Molds and Matrix Technology, Technology Transfer University-Companies Centers, New Materials Center, Textile Design School, etc.

NB: What will be the effect of the Olympic Games on Catalan industry?

PUJOL: This is a challenge and an opportunity for industry to demonstrate its capacity to develop new products for the games.

American Enterprises in Catalonia

Catalonia, a bridge to the European market. A number of American companies such as Hewlett Packard, BBDO Int'l Inc., American Cyanamid Co., Bechtel Corp., CK Technologies, Foster Wheeler Int'l Co., etc. have established themselves in Catalonia, along with enterprises such as Lotus, to be set up very soon. These companies think that now is the appropriate time to invest in a region, whose capital is Barcelona, which is becoming a Mediterranean macro-region and extends the full arch of Piedmont, Lombardy and Veneto. Catalonia represents 30 per cent of Spanish GIP (Gross Industrial Product), showing its industrial power.

Through the C.I.D.E.M. (Center for Information and Industrial Development) the *Generalitat* of Catalonia gives the small and medium enterprises help to promote themselves abroad and facilitates foreign investment in Catalonia. C.I.D.E.M. also helps them to establish commercial contacts with American companies, to buy technology, and to work together to enter third markets.

Among C.I.D.E.M.'s main functions is advice on a wide area of legal subjects, information on sellers and buyers, information on labour market conditions, location and selection of industrial sites according to the necessities of the company, and the taking of all the legal steps necessary to establish companies in Catalonia. It also helps in contacting American companies already set up in Catalonia.

Among the incentives to set up new activities the help given from the Catalon Z.U.R. (Priority Area for Industrial Redevelopment) should be mentioned. This includes grants covering up to a 30 per cent of the total inversion, preference in obtaining State credits, tax exemptions, such as allowance of up to 99 per cent on customs duties imposed on the import of capital goods and tools not made in Spain and to be installed for the first time, reductions of up to 99 per cent on any other kind of local Government excise tax or levy which affect the establishment of industrial activities, and also tax exemptions which have an average duration of 5 years extending to 10 years. As a reference, it should be observed that up to January 1988 Z.U.R. has approved 160 projects with a total inversion amounting to 62.432 million pesetas. Moreover, C.I.D.E.M. gives information about grants in other areas that the Industry and Energy Department intends to promote.

In this context it should be mentioned again the Vallés technological area, which is situated very near Barcelona and well communicated because of the motorway network and proximity to Barcelona's airport and port. In this area there are two universities, a number of research centres and several large companies such as Olivetti, Sharp, Hewlett-Packard, Asea, etc. are devoloping. There is also a General Research Laboratory of *Generalitat* of Catalunya, the National Centre of Microelectronics, and the Vallés Technological industrial estate for high technology enterprises.

C.I.D.E.M. has also opened branch offices in the USA (Miami and New York) where further information can be obtained.

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tism regarding Catalonia's ecology and its cultural heritage, he says. This adds up to a sociable personality that makes dealing with them a pleasure.

The work ethic has always been important to the Japanese, who have established themselves as leading investors in Catalonia. Yoshiaki Veda, director-general of Sumitomo Bank in Spain, also agrees with Klein.

"The Catalans understand our work philosophy," says Veda. "We bring our way of being and study theirs.

"The combination brings about good results," Veda says.

"For us, Spain, and in particular Catalonia, has become an ideal country. Barcelona is the closest city to Europe with a strong position in industry and trade," Veda says.

From a Japanese businessman, that is high praise.

Catalonia's position for the potential investor is unique, as Barcelona's Mayor Pasquall Maragall recently pointed out. Barcelona is close to the French border, with good communications making it an ideal gateway to the growing Spanish market of 35 million consumers. It is also the gateway to the North African, Middle Eastern and South American markets. Catalonia, for its part, is the region of Spain with the highest income and highest demand, he said.

Motor Iberica, the Spanish subsidiary of Nissan Motors, is typical of the importance of the geographical situation of Catalonia.

Motor Iberica's plan was to service the Spanish market to the South as well as the European market to the North. Because of Catalonia's location, highway delivery of goods within two days to Paris, Geneva, Milan, Frankfurt, Hamburg and Amsterdam normally can be guaranteed.

In recent years, both the Generalitat de Catalunya and the Barcelona city government have been spearheading an ambitious drive to attract foreign investment in Catalonia.

Heading the Barcelona City Council's efforts is the Consorcio de Zona Franca, or Barcelona Development Agency; the Generalitat's efforts are channeled through the Center for Information and Business Development (CIDEM).

CIDEM and the Barcelona Development Agency work in tandem but operate independently. Both offer free advice to potential investors as well as a formidable array of government subsidies and other incentives.

Manuel Ludovid, a director of the Barcelona Development Agency, is typical of the new Catalan blood being brought in to rejuvenate the economy.

Ludovid, age 38, was educated in the United States, at Cornell University, and taught at Barcelona's prestigious business school, ESADE. He is the author of a highly successful book on how to set up a new business and, at ESADE, he is known as the founder of the Department of Entrepreneurship.

Many of Ludovid's efforts at the agency

A Family Of Fine Wines

The world-famous Freixenet cellars were preceded by the Casa Sala, which in the 18th century made and sold what was called vino tranquilo, or quiet wine.

With the marriage of Dolores Sala Vive and Pedro Ferrer Bosch—two winegrowing families of the Penedes—the challenge of creating a firm making sparkling wine according to the metode champenoise began.

In 1915, Freixenet was born, and its projection among quality cellars had its start. The name Freixenet derives from Pedro Ferrer, a member of the family owning that estate la Freixenda (freixa in Catalan means ash tree) since the 13th century.

Today, Freixenet is the leading Spanish wine exporter, to more than 70 countries, representing 70 percent of Spain's sparkling-wine exports.

It is the first Spanish wine maker to establish itself in the world's main metode champenoise production centers: in Champagne, France, by acquiring Henri Abele, founded in 1557 and at one time provider of H. M. Alfonso XIII; in California, creating a new cellar in Sonoma Valley that makes Gloria Ferrer; in Queretano, Mexico, where new cellars will also be inaugurated to make a metode champenoise sparkling wine called Sala Vive.

Today when it is the absolute world leader in metode champenoise, the firm remains family owned.

enter the industrial network of Catalonia

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Barcelona harbor links Catalonia with other industrial centers throughout the world.

PHOTO: STEPHANE MAZE—WOODFIN CAMP

are centered on attracting U.S. companies to Barcelona and, in particular, to the massive industrial estate operated by the Development Agency.

The Agency has two offices in the United States, in New York and in California, which are actively lobbying companies to set up any new Europe operation in the area he promotes.

The Barcelona Development Agency publishes a practical guide to industrial development in Barcelona that is essential reading for anyone mulling plans set up shop in Catalonia.

It was written by an American, Kristine Olson, who is a professor of finance at the ESADE.

This guide gives hints on all aspects of doing business in Spain, lists all available aid programs from official agencies and gives space to recent foreign investors to explain their reasons for setting up operations in Barcelona and how they have found the experience.

Destroying myths about Catalonia and Spain as a whole is one of Ludovid's first tasks when dealing with U.S. companies. He recalls his Harvard days, when he would be asked if Spain had color television.

When potential investors come here from visiting countries such as France or West Germany, he quips, they marvel at the fact that the stores are as good as stores in those other European countries. But, on a more serious note, he points out that many senior U.S. executives do not know much about Spain, let alone Catalonia. They know only about the sun, the bulls and the friendliness of the people. Broadening their understanding is our first task, says Ludovid.

The Barcelona Development Agency has high hopes that more U.S. companies will follow on the heels of Hewlett-Packard, which recently set up a big plant there. The agency hopes to attract 15 to 20 new companies with sales of over $20 million (U.S.).

Ludovid points out that many Japanese companies have seen the advantage of setting up operations in Catalonia as a springboard for the European market. American companies cannot afford to lose out, he warns.

Ludovid says his direct competitors are Ireland and the United Kingdom, countries with very similar labor costs. Both countries offer regional incentive packages. But Ludovid insists that his main selling points are the Catalan people's traditional work ethic, the availability of a highly trained work force, good communications with Spain and the European community, and an industrial infrastructure that can provide raw materials for most new industries.

Unlike other countries vying for foreign investment, the Barcelona Development Agency's strategy is no longer primarily based on regional incentives of cheap land and other subsidies that can often cover over 15 percent of an initial investment. Foreign multinationals are more impressed by factors such as the proximity of a major market, infrastructure, the quality of the work force and management capacity, Ludovid says.

Management capacity is certainly an important asset that Barcelona can offer, according to Juan Comalada, one of CIDEM's directors.

He points to ESADE-ESCUELA Superior de Administracion Y Direccion de Empresas, whose five-year MBA program is the most respected in Spain.

Only a small proportion of aspirants are allowed to join ESADE's programs, and its graduates have a reputation for aggressiveness as well as high intelligence. Anyone who graduates with a degree is prized by leading corporate employers, not just in Barcelona but also in Madrid.

The quality and quantity of well-trained graduates will take a turn for the better when the Generalitat brings onstream its new planned university, which will concentrate on technology and sciences. Barcelona, with three university institutions, already has the highest number of official universities of any Spanish city (Madrid has only two), and the project with an initial budget of $220 million (U.S.) will increase this to four.

A decade ago, the only reason foreign companies were allowed to set up operations inside Spain's highly protectionist

American Chamber In Spain

The American Chamber of Commerce, with a membership of 2,400, is one of the largest AmChams in the world.

The main objective of this AmCham is to promote trade relations among companies of both Spain and the United States.

U.S. multinationals give special support as Patron Members, and the majority of the membership is represented by Spanish small and medium-sized companies.

The Chamber is mainly service-oriented, and it offers a dynamic system of trade opportunities to U.S. firms wishing to do business in Spain. To this end, the Chamber publishes a special section in its monthly newsletter, making known all offers received from the United States.

U.S. firms interested in entering the Spanish market (population 40 million) or buying Spanish products are invited to contact the Spanish AmCham. The head office of the Chamber is in Barcelona at: Avda. Diagonal, 477, 8th floor, 08036 Barcelona. Fax: 34 3 321 81 97. Jose A. Manrique is executive director.

environment was because they could provide technology that Spain lacked. Spain had plenty of cheap labor and tended to go for labor-intensive industries with limited technology. But in recent years this has begun to change, and local companies are now developing their own technology.

Leading the trend toward new technology is Catalonia, which now has the highest concentration of small, high-tech companies in Spain.

A small but typical example is the Catalan company Adaibra S.A. Over the past 20 years, the company had established itself as a leading manufacturer of cookware. A few years ago, its management decided to diversify into chemicals-process engineering. Last year, the company won contracts to build chemical plants for Du Pont in the United States, for Reichold Chemicals in Canada and for ICI in Australia.

While Spain and Catalonia are still net importers of technology, exports of Spanish technology are certainly on the increase.

Examples in 1988 include a $4 million (U.S.) contract won by a Barcelona-based chemicals company, TEXSA, to build a chemicals plant in Laionin, China, using TEXSA-developed process technology. Madrid-based Control Y Aplicaciones won a similar $5 million (U.S.) contract to provide a control system for an Abu Dhabi oil field using software developed at the company's research center in Barcelona.

Catalonia has certainly had a head start in the high-tech business, and the policy of the Generalitat is to maintain its lead over other regions of Spain in this field.

One major project aimed at maintaining that edge is the Valles Technological Park in Barcelona.

The project to create this science park is a joint venture enterprise conceived by several official bodies, including the Barcelona Development Agency and the CIDEM.

The aim of the project is to attract small companies with the promise of cheap land, good communications, a well-developed research-and-development structure and pleasant surroundings.

The emphasis is on small companies in the fields of microelectronics, robotics, biotechnology, new materials and fine chemicals.

Three computer-software companies were recently given the go-ahead to set up operations there, and Valles Technological Park management is currently studying applications by 90 other companies, according to Ludovid.

Other Spanish regions are setting up science parks along the same lines as the Valles project, but Barcelona's park will be the first to come into operation, Ludovid says.

By being the first science park in Spain to be open to new companies, it will create a momentum that will attract the bulk of newly established high-technology companies to the project, Ludovid explains.

Foreign businessmen agree that Catalonia is set for a period of sustained growth and a continued flow of new investment from foreign nations.

As one U.S. businessman recently summed up, "With the Olympic Games coming in 1992, Barcelona is a name you will not have to remember. Catalonia is a name you ought not to forget." NB

Personal Management

To Your Health

By Carol Dilks

User-Friendly Hospitals

Two nights a week, Sandy Walker crosses the Canadian border on a special health mission. After locking the door of her Newport, Vt., card shop, she drives eight miles to the Quebec town of Stanstead, where she dives into a college pool for an hour of swimming.

Walker knows exactly how hard to swim to increase her heart rate enough for a good aerobic workout. That is because she has been swimming for three years as part of a health program—one sponsored not by the college or her local aquatics club, but by Newport's North Country Hospital.

North Country has sponsored health-promotion programs on and off the hospital grounds since 1982. At her latest sign-up, Walker drew the lucky number: She was the 10,000th participant in the hospital's programs, and she got a commemorative T-shirt and some local attention. And through her involvement, she has picked up a new view of the hospital: "I feel they're interested in you not only when you are sick, but when you're well."

Hospitals are working hard to promote that idea. An estimated 85 percent of them now offer staff-led courses and lectures on physical and emotional well-being. Some of these courses are logical extensions of medical services, such as lifestyle support groups for recent heart-attack victims; others go farther afield, to subjects like weight control and aerobic dance.

Much of this new activity is the result of a squeeze on the hospitals: Their liability-insurance costs have gone up, and a new system of uniform Medicare disbursements has slowed revenue growth. These developments have driven hospitals to seek new sources of revenue, like health-promotion programs, that involve lower risks of lawsuits.

The programs generally run in the black. Though some lectures are free,

Carol Dilks is a Philadelphia free-lance writer.

PHOTO: TONY TALBOT

Sandy Walker of Newport, Vt., got her certificate for being the 10,000th participant in North Country Hospital's wellness program.

most courses and seminars have fees, usually under $50 per person. Classes at corporate sites are billed either by the hour or per person. The most popular programs are nutrition education, stress management, hypertension control, prenatal education, physical fitness, stopping smoking, aerobic dance, weight control, back care, cardiopulmonary resuscitation (CPR) and diabetes management.

To attract more participants, some hospitals have worked up courses for relatively narrow audiences. The many offerings at Arlington Hospital in Arlington, Va., include seminars on dealing with depression, bereavement, divorce, job loss or promotion; alcohol and drug-abuse awareness; plastic surgery; self-esteem and adolescence; and exercise for the elderly. The hospital also has support groups for people with diabetes, herpes, cancer and arthritis.

Arlington Hospital is considering opening satellite centers to help meet rising demand. Among other hospitals with such centers is Scripps Memorial, in La Jolla, Calif. It has 13 off-campus sites, including one that is in the middle of a large San Diego shopping mall.

Other hospitals have rebuilt their facilities to accommodate health-promotion programs. Gottlieb Memorial Hospital, in Melrose Park, Ill., has gone a step further by building its own physical-fitness facility.

In addition to offering programs for patients and the general public, many hospitals also market corporate programs. These take the form of employee health surveys, individual risk assessments, cholesterol screenings and health fairs.

Trash haulers at Browning-Ferris Industries, in Hatfield, Pa., were concerned about back problems, so the company's safety manager contacted the Graduate Hospital of Philadelphia and set up a seminar with nurse-practitioner Sharon Gates. She presented a 90-minute lecture and demonstration, which cost the company $150.

A group of 45 haulers (out of a company total of 50) learned about the structure of the spine. They simulated their tasks for careful observation by Gates, who zeroed in on what they were doing wrong. She demonstrated how to lift objects properly and had the workers practice the new method. After six months, the workers were still applying what they had learned. Said Safety Manager Bob Carroll: "Up to now, no one has been out with a bad back." NB

Hospitals want you to think about staying well, but if you think about some of the provisions in the Internal Revenue Code, you might get sick.

For Your Tax File

By Paul N. Strassels

A Time To Throw, A Time To Keep

With this year's tax-return filing season over, at least for most taxpayers, turn your thoughts to cleansing your tax files. Chances are you can throw away half or more of those dusty records you have stored for years.

You cannot just write down anything that leaps to mind when you prepare your taxes. The law requires you to maintain permanent books and records to confirm what you report on your returns.

The Internal Revenue Service recommends that you keep all sales slips, invoices, receipts, canceled checks, stock brokerage statements, W-2s, 1099 income-information slips and other documents that prove the amounts shown on a return.

You should also keep a copy of your return. If you are missing an old return (up to 6 years old), you can fill out Form 4506, Request for Copy of Tax Form, and send it to the IRS Service Center where you originally filed the return. The charge for a replacement is minimal.

How long do you keep your receipts? For as long as the IRS may need to look at them to confirm the information that appears on your return. Once that time expires, there is no need for all those papers.

Generally, the IRS has three years after a return is filed to question it. The IRS has until April 15, 1991, to audit your 1987 personal income tax return, assuming you filed on or before April 15, 1988. You have the same time frame within which to file an amended return claiming overlooked tax breaks you

Paul N. Strassels, president of Money Matters, Inc., Burke, Va., is a tax-law specialist and financial adviser.

PHOTO: CHRISTOPHER KERN

may discover at a later date. After three years, your return is considered closed, except in extraordinary circumstances. A 1984 return filed by April 15, 1985, is now considered closed, so get ready to discard most of your tax papers for 1984 and earlier years.

But first, a warning. If you never filed a tax return for a particular year, the statute of limitations never begins to run. If you filed a return, and omitted, for whatever reason, more than 25 percent of your income, the IRS has six years to audit that return. If you file a corporate return, and the IRS can classify your business as a personal holding company, the IRS has six years to go after you, unless you file Form 1120 PHC along with your return detailing personal holding company income.

Assuming you do not fit these criteria, here's what you should do for 1984 and earlier returns. Toss out everything except the following:

- A copy of the return itself, if only to prove you actually filed.
- W-2 wage statements and 1099 income information slips.
- Canceled checks written to federal, state and local tax authorities.
- Information regarding the cost basis of investments, your home, gifts made and received, and other capital items.

The rest goes in the trash.

But For Employment Taxes, Think Four Years

Employers are required to keep their employment tax records at least four years. Specifically, you should maintain a file with:

- Your employer identification number.
- The amounts and dates of all wage, annuity and pension payments.
- The amounts of tips reported by employees.
- The fair market value of in-kind wages paid.
- The name, address and Social Security number of each employee.
- Dates of employment.
- Copies of employees' income-tax withholding-allowance certificates.
- The dates and amounts of tax deposits you made.
- Copies of payroll-tax returns that you filed.
- A record of tips allocated to employees.
- A record of benefits provided.

Keoghs: Another Door Closes

Not all self-employeds are wildly successful, especially during the first years they are on their own. Most are not eligible to make Keogh retirement-plan contributions, at least not to any significant extent, because they have little or no profits. Today, Keogh contributions are limited to 20 percent of net self-employment profits, up to a maximum of $30,000.

Once there was a nifty little exception that allowed a struggling entrepreneur to deduct a minimum Keogh contribution of 100 percent of profits, up to $750. Unfortunately, through a little-noticed change in the law, this tax benefit has been eliminated.

Damages: What's Taxable?

The amounts a person receives as compensation for physical injuries and sickness are tax-free, whether the money comes from an accident- or health-insurance policy, workers' compensation, a judgment for damages, or a settlement or compromise. Even damages based on injuries that are not physical, such as injury to your personal reputation, do not result in taxable income.

Damages received through a legal action charging breach of contract or fiduciary duty are another story; they must be included in taxable income. ■

For Your Tax File

By Gerald W. Padwe, C.P.A.

Really now, can it matter much if, in the flood tide of tax returns, yours is a teeny-weeny, itty-bit late! Hoo boy, can it ever.

Better Late Than Never? Well, Yes And No

Our Internal Revenue Code provides for over 150 penalties. Most are transaction-oriented. For example, if a taxpayer fails to supply a tax identification number to the payer of a dividend or interest, the taxpayer can be penalized $50 for each such violation. Likewise, a tax-return preparer who fails to sign a return in that capacity is subject to a $25 penalty.

Some penalties are, however, tied to standards of conduct. In those cases, the penalty is often a percentage of any tax that has not been paid because the standards have not been met. For instance, failing to file a return on time will result in a penalty of 5 percent per month of the tax due, up to a maximum of 25 percent.

Suppose, though, that a taxpayer has had more tax withheld than his late-filed return ultimately shows as being due. Suppose a corporation has satisfied its liabilities through estimated tax payments, so that the late-filed return shows an overpayment of tax.

In such situations, the penalty for late filing is inapplicable, because there is no tax due. But lest any readers conclude that this gives them carte blanche to file late returns, remember that late filing creates many other problems. For example, any election to accomplish a tax strategy must be made on a return filed by the deadline. Even if no tax is due on a late-filed return, any election will not be valid.

Two of the more common misconduct penalties are for negligence (5 percent) and substantial understatement of tax (25 percent). Significantly, both percentages are applied to the underpayment of tax—not to the tax due when the return is filed. And this has given the Internal Revenue Service a potent weapon against late filers.

The IRS looked at penalties on late-

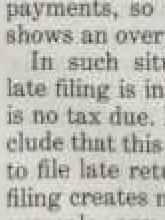
PHOTO: BOB DAEMMRICH—UNIPHOTO

filing taxpayers in a 1985 Technical Advice Memorandum (TAM) dealing with negligence and a 1988 TAM dealing with substantial understatement.

In the case involving the negligence penalty, the tax liability was more than covered by withholding or estimated taxes, and the taxpayers were actually entitled to a refund. Nonetheless, the IRS found that the late filing was caused by negligence and argued that there was an "underpayment" based on a reported liability of zero as of the due date (that is, since the taxpayers had filed no return by the due date, they were in effect reporting that no tax was due). The 5 percent negligence penalty was applied to the full amount of tax shown on the late-filed return, even though that tax had already been paid by withholding or estimates.

In the recent TAM involving substantial understatement on a late-filed return, the IRS applied the same reasoning. The 25 percent penalty was applied to the total tax, not just to the balance due after withholding and estimated-tax payments were taken into account.

In both of these situations, returns were not filed until after the IRS got in touch with the taxpayers and asked them where their returns were. Possibly, had there been voluntary filing before then—even though late—the IRS would have waived the penalties.



Gerald W. Padwe is national director-tax practice for Touche Ross & Co. Readers should see tax and legal advisers on specific cases.

AMT: Going By The Book

A significant change for corporations under the Tax Reform Act of 1986 was the adoption of a new alternative minimum tax (AMT). This tax—20 percent of alternative minimum taxable income (AMTI)—is imposed only when AMT would be greater than regular tax.

AMTI is calculated by using such adjustments as slower depreciation and more conservative accounting methods to produce a broader base of taxable income. It is subject to its own limitations on losses and credits.

One adjustment required to arrive at AMTI brings financial-statement reporting into the tax base. When pre-tax financial-statement (book) income is substantially higher than taxable income, one half the excess of adjusted net book income over AMTI will be subject to the alternative minimum tax.

For example, if the adjusted net book income of a firm is $500,000 and the firm's AMTI is $300,000, one half of the $200,000 excess must be added to the alternative minimum tax base. The AMT would thus increase by $20,000.

A key point, of course, is from which financial statement one takes book income to calculate the adjustment. Pre-tax book income as shown on a financial statement prepared in accordance with generally accepted accounting principles differs from taxable income. A financial statement based on tax concepts shows less of a difference.

Under AMT rules, a system of priorities governs the choice of a financial statement. If a corporation files a statement with the Securities and Exchange Commission, that statement must be used.

If the corporation files no such statement, the statements that take priority are, in descending order, a certified audited statement; a statement required by a federal, state or local government or a government agency (not including a tax return); or an unaudited or other financial statement.

For example, if a corporation has both a certified audited statement for shareholders and an unaudited statement used for management purposes, the certified statement would be the applicable financial statement. If a corporation has two statements of equal priority, the one that is used for credit purposes has higher priority than the one used for disclosure to shareholders.

We will look further at applicable financial statements and the book-income adjustment next month. NB

THE NATION'S BUSINESS

Where I Stand

Results of this monthly poll are forwarded to top government officials in the White House and Congress.

1. Enact "Training" Wage To Create Jobs?

Some in Congress are seeking approval of a subminimum "training" wage for new hires. Proponents say employers likely would provide more entry-level jobs if they could pay below the minimum wage. Business owners would get affordable employees, proponents contend, and newly employed workers would gain maturity and invaluable training while earning money. Opponents argue that a subminimum training wage would erode all wages and would not result in new jobs because new hires would refuse to work for less than current employees. Should Congress approve a training wage for new hires?

2. Allow Federal Workers To Be More Political?

A Senate committee is holding hearings on a House-passed bill that would allow Postal Service and federal civilian workers to become fully involved in partisan political activities. Backers say this change in the Hatch Act would promote government employees to "first-class citizens" and encourage them to play active, constructive roles in politics. Opponents argue the proposal would likely subject many career federal workers to intense political pressure from superiors while letting workers exert similar pressure on business people and other contacts. Should federal workers be allowed to engage fully in partisan politics?

3. Continue Oil, Gas Leasing Program?

Environmental forces in Congress are seeking a moratorium on leasing the majority of the Outer Continental Shelf to oil and gas explorers and developers. Supporters of this moratorium believe offshore drilling poses an unjustifiable threat to the environment. Proponents of development counter that the offshore-drilling industry has a good safety record. Leasing proponents also point out that America has never been more dependent on imported energy. Imports now account for nearly 40 percent of U.S. oil consumption, and that share is increasing. Should the offshore-leasing program be allowed to continue?

Verdicts On March Poll

Here is how readers responded to the questions in the March issue.

	Yes	No	Undecided
Should states be given more say about welfare?	87%	7%	6%
Should highway speed limits be raised?	65%	30%	5%
Should trade programs be consolidated?	71%	11%	18%

Send in your vote on the inserted postpaid card. Your views on any of these questions are also welcome as letters to the Editor, Nation's Business, 1615 H Street, N.W., Washington, D.C. 20062.

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THE NATION'S BUSINESS

The Value Of Your 1988 Dollars

You're making $140,000 this year, which seems like a magnificent sum compared with your $40,000 in 1966. But have you kept up with inflation?

You paid $50,000 for your house in 1975. Do you find the idea of selling it for twice that amount appealing?

Your son-in-law informs you that he's finally going to pay back the $2,000 you loaned him in 1976 to start a business. How has inflation affected the real value of that $2,000 loan?

The answers to questions on the changing value of the dollar can be computed by using a formula developed by Martin Lefkowitz, director of special projects for the National Chamber Foundation, an affiliate of the U.S. Chamber of Commerce.

A multiplier produces the value of the dollar in a given year compared with the 1988 dollar.

The multiplier for 1966 is 3.64. Applying it to your $40,000 salary for that year shows that you would now need $145,600 to have the same purchasing power you had 22 years ago.

The multiplier for 1975, the year you bought your house for $50,000, is 2.20. That works out to a current sales price of $110,000 just to recover your investment. And your son-in-law would have to give you $4,160 if he is going to return as much purchasing power as you gave him.

Similar comparisons can be made for any dollar amounts—sales, operating costs, capital expenditures, college expenses, taxes, etc.

The table can also be used to work back to any of the listed years. The 1980 dollar was worth 43 cents more than today's, and the 1970 dollar had $2.04 more purchasing power.

Here is the index of the past 22 years, with 1988 the base year at 1.00.

Year	Multiplier	Year	Multiplier
1966	3.64	1977	1.95
1967	3.54	1978	1.81
1968	3.40	1979	1.63
1969	3.22	1980	1.43
1970	3.04	1981	1.30
1971	2.92	1982	1.22
1972	2.82	1983	1.19
1973	2.66	1984	1.14
1974	2.40	1985	1.10
1975	2.20	1986	1.08
1976	2.08	1987	1.04

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COMMENTARY

Congressional Alert

Here, in brief, are important legislative issues along with suggestions from *Nation's Business* on what you should tell members of Congress about them. Addresses: U.S. Senate, Washington, D.C. 20510 and U.S. House of Representatives, Washington, D.C. 20515.

Tax Incentives For Education

PHOTO: PETER GARFIELD—FOLIO, INC.

Access to education—a hallmark of American society—is threatened today by the escalating costs of post-secondary education. Since 1980, the cost of a college degree has increased by nearly 75 percent. Due to recent changes in the tax code, the financing of an education is becoming more difficult. Several bills designed to ease the burden have been introduced in Congress.

The Employee Educational Assistance Act, which expired last year, provided that funds paid to an employee under a qualifying educational-assistance program do not count as income for tax purposes. Millions of workers have participated in such programs. Legislation to reinstate permanently the favorable tax treatment for employee educational assistance has garnered strong bipartisan support in Congress.

The income-tax deduction for interest on consumer loans, including student loans, is being phased out. Because of rising costs, increasing numbers of students rely on student loans to finance higher-education expenses. Although interest on loans secured by a primary or secondary residence—and used in turn for educational expenses—remains deductible, this limited assistance does not help taxpayers who do not own their own homes.

The Senate Committee on Finance has begun hearings on tax-incentive proposals, including restoration of the favorable tax treatment of employee educational assistance and the deduction for interest on student loans. The House Committee on Ways and Means may consider restoration of the favorable tax treatment for employee educational assistance later this year.

Urge your senators and representatives to restore these educational tax incentives.

Fiscal Improvements

PHOTO: ERIC POGGENPOHL—FOLIO, INC.

The President, in his budget message to Congress for fiscal year 1989, proposed three constitutional amendments—a balanced-budget requirement, a supermajority requirement to increase taxes, and line-item veto authority. These fundamental changes in federal fiscal procedures would provide a foundation for a sound budget process.

In addition, the President proposed a statutory reform—a biennial budget. Budget deliberations now dominate annual sessions of Congress, often to the exclusion of other major issues. A biennial budget would allow members more time to work on other pressing national issues.

The 1989 budget will far exceed $1 trillion and run another large deficit, approximately $140 billion. The need for basic changes in handling the budget is apparent.

Urge your senators and representatives to approve the President's proposals, which will help to assure the nation that its government will act responsibly in making critical decisions on spending and taxing.

Union Advantage In Construction

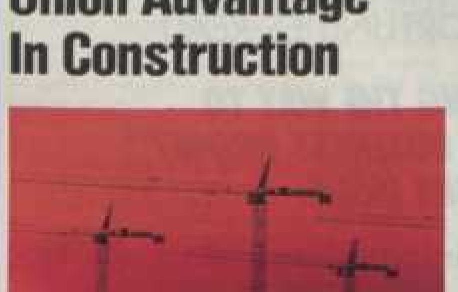


PHOTO: ROBERT SHAFER—FOLIO, INC.

Double-breasting has become very common in the construction industry. This practice allows an employer to participate in the ownership or management of separate companies—one union and one nonunion. Congress is considering legislation that would prohibit double-breasting in the construction industry by redefining "single employer" to include separate companies if there is significant common ownership, control or management.

Twenty years ago unions represented more than 80 percent of the employees on major construction projects. Today they represent fewer than 30 percent. Prohibiting double-breasting could provide union organizers a significant advantage in unionizing the construction industry by subjecting a majority of workers to union representation if a minority of workers in an affiliated company becomes unionized. Unions would gain substantial numbers of new members without earning those members through a representation election.

Contact your senators and representatives to urge them to protect workers' rights by allowing double-breasting in the construction industry.

COMMENTARY

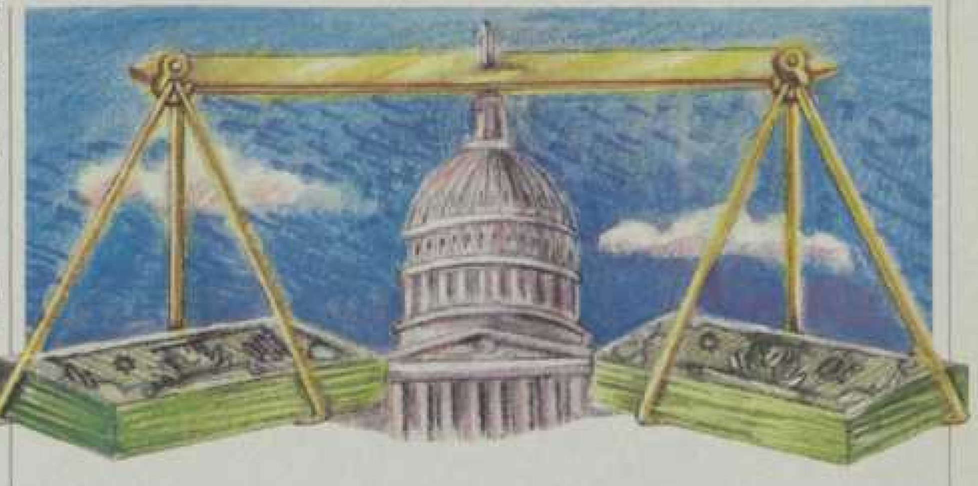
Editorials

If Congress can't make up its mind to balance the budget, maybe pressure from the states will do the trick.

Don't Let Congress Off The Hook On A Balanced-Budget Amendment

"The Congress, whenever two thirds of both Houses shall deem it necessary, shall propose Amendments to this Constitution, or, on the Application of two thirds of the several States, shall call a Convention for proposing Amendments..."

—Article V, U.S. Constitution



All 26 amendments to the U.S. Constitution have originated in Congress, and the state-convention approach has never been used. But it has not been forgotten. Just the threat of a state convention has sometimes been enough to pressure Congress into approving proposed constitutional amendments.

Another such time may be at hand. Congress has refused to approve a constitutional amendment requiring a balanced federal budget. As a result of this congressional intransigence, 32 states have endorsed a convention, and action by only two more will force Congress to call a convention. But the issue is heading into a critical phase. While five states are now considering convention resolutions, seven of the 32 states that have given approval are thinking about withdrawing it.

Opponents of the state-level approach argue that a convention could not be restricted to a balanced-budget amendment but could conceivably open broad areas of the Constitution, including the Bill of Rights, to change.

Those backing the convention point out that Congress is considering a bill to set limits and rules for a convention. And the ultimate safeguard is the provision that no proposal of the convention could become a part of the Constitution until approved by three fourths of the states.

The states considering passing resolutions in favor of a convention are Kentucky, West Virginia, California, Wisconsin and Vermont. Those considering rescissions are New Hampshire, Nebraska, Florida, Wyoming, Maryland, Pennsylvania and Virginia.

Business people in those states should urge those legislatures considering a convention call to act favorably, and those considering rescission to reject any such retreat.

The continuing possibility of a constitutional convention will be a powerful incentive to Congress to act on a balanced-budget amendment.

Redo The Report On Capital Gains

The Congressional Budget Office fired a dud in its recent attack on the business-backed proposal to cut the capital-gains tax. While the media cited CBO as a source of great expertise on the subject, a leading business economist pointed out that its report on the relationship between capital-gains rates and federal revenues was actually a pretty shoddy piece of work.

CBO said in its summary conclusions that a reduction in the capital-gains rate would result in a decrease in federal tax collections. But Richard Rahn, vice president and chief economist of the U.S. Chamber of Commerce, declared: "At best, the study is incomplete and gives a grossly misleading impression. . . ."

Rahn commented in a letter to Rep. William Gray (D-Pa.), chairman of the House Budget Committee.

Rahn said that the most obvious problem in the CBO study was the failure "to take into account the central argument in favor of a capital-gains rate: such a rate would promote economic growth, venture-capital formation and entrepreneurship."

Rahn said the CBO overlooked the increased tax revenue from new ventures and their employees. The U.S. Chamber economist also pointed out that this country taxes long-term capital gains at a higher rate than all of its major competitors, putting it at a disadvantage in world trade.

Rahn urged Chairman Gray to request the CBO to do a new study that would address the points ignored in the earlier one. Because a reduction in the tax rate on capital gains is such an obvious way of stimulating the economic activity that generates federal taxes, the Budget Committee chairman should not hesitate to do so promptly. NB

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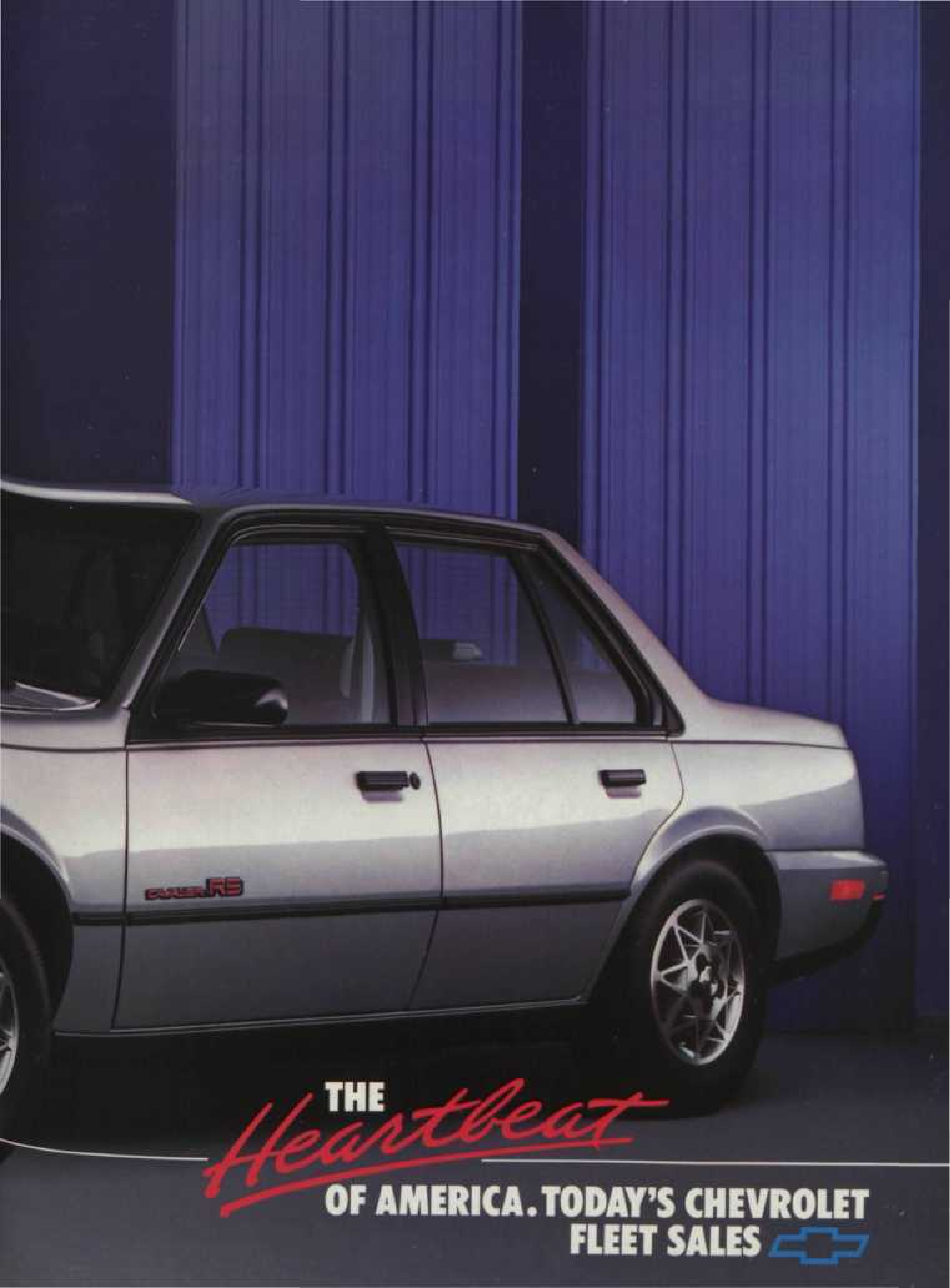
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